YARDWAY GROUP LIMITED
啟帆集團有限公司

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

(Stock Code : 646)

Annual Report 2010

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Mr. Xu Zhong Ping *(Chairman)*
Mr. Zhang Fang Hong
Ms. Song Xuan
Mr. Xu Xiao Yang

Non-executive Director:

Mr. Ge Ze Min

Independent Non-executive Directors:

Mr. Wong Kam Wah
Dr. Zhu Nan Wen
Mr. Gao Ling

AUDIT COMMITTEE

Mr. Wong Kam Wah *(Chairman)*
Dr. Zhu Nan Wen
Mr. Gao Ling

REMUNERATION COMMITTEE

Mr. Wong Kam Wah *(Chairman)*
Dr. Zhu Nan Wen
Mr. Gao Ling

NOMINATION COMMITTEE

Mr. Wong Kam Wah *(Chairman)*
Dr. Zhu Nan Wen
Mr. Gao Ling

COMPANY SECRETARY

Mr. Li Wang Hing, Nelson

AUDITOR

CCIF CPA Limited
34/F, The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

LEGAL ADVISERS

Chiu & Partners
Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1003–5
10th Floor, Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2511 1870
Fax: (852) 2511 1878

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 0646

PRINCIPAL BANKERS

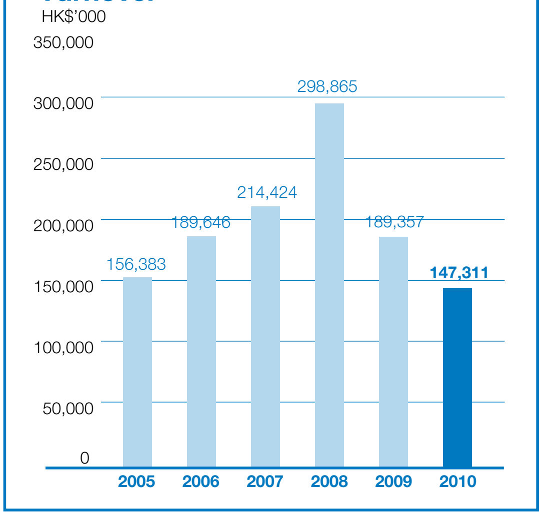
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited

COMPANY WEBSITE

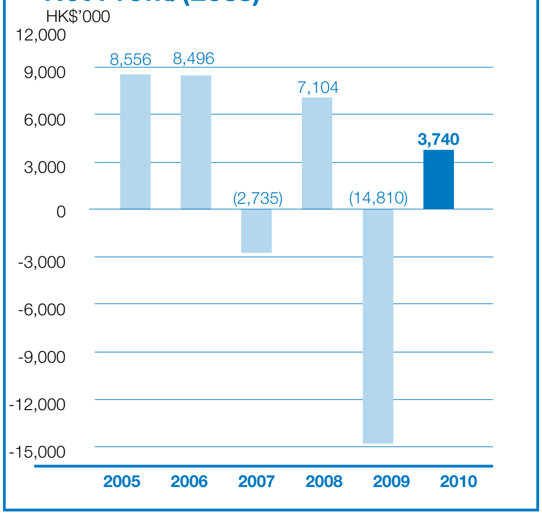
www.yardwaygroup.com.hk

Financial Highlights

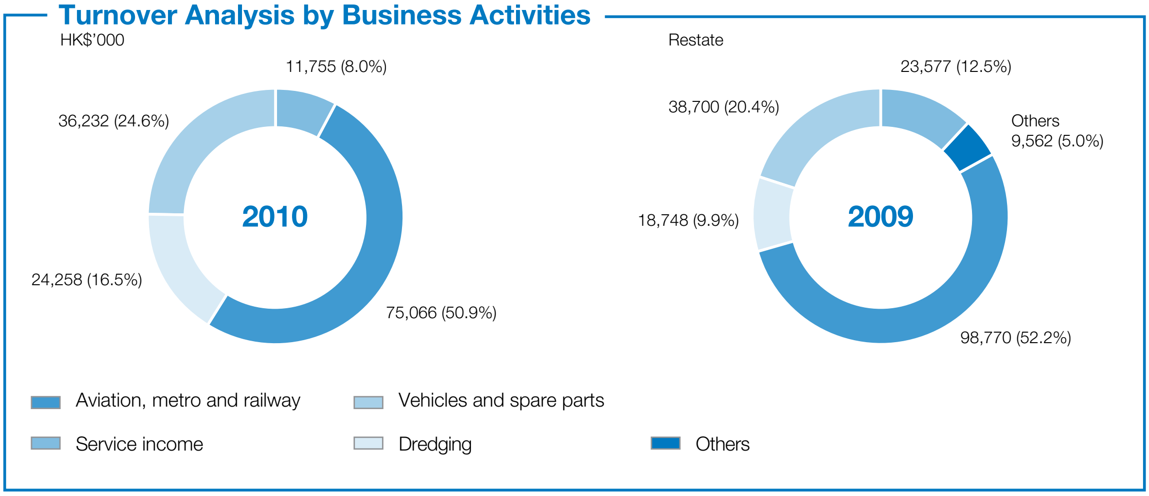
Turnover



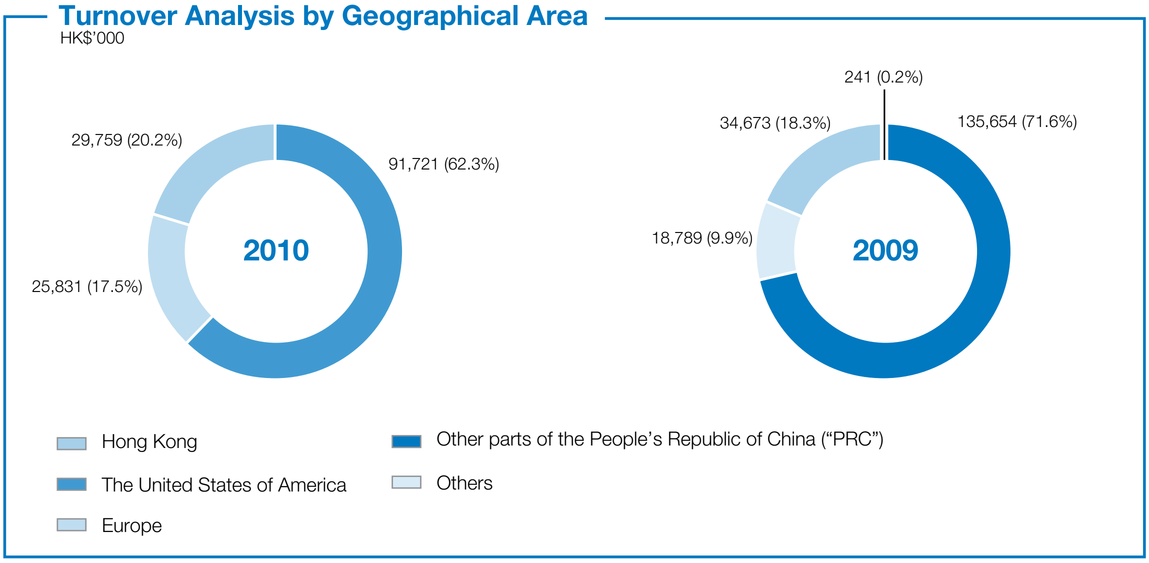
Net Profit/(Loss)



Turnover Analysis by Business Activities



Turnover Analysis by Geographical Area



Chairman's Statement

On behalf of the board ("Board") of directors ("Directors") of Yardway Group Limited (the "Company") and its subsidiaries (collectively the "Group"), it gives me pleasure to present to the shareholders the annual report of the Company for the year ended 31 March 2010.

The Group's turnover amounted to HK$147,311,000 for the year ended 31 March 2010, representing a decrease of 22.2% as compared to the previous year. The profit attributable to owners of the Company amounted to HK$3,740,000 (2009: loss of HK$14,810,000). The Board does not recommend any payment of final dividend for the year ended 31 March 2010 (2009: nil).

With the great efforts of the management to implement appropriate strategies, the results of the Group had been turned from loss to profit. Our efforts have earned us the continuing loyalty of existing customers which will prove important business drivers as the economy returns to a firmer footing.

Despite various difficulties and many uncertainties in the global economy in 2010, we remain committed to enhancing shareholder value through careful risk management and cost control while investing in new opportunities to promote sustainable growth over the long run. Currently, we will pay concentration to development our business in China. Not only for the existing business, but also to pay close attention to new business in line with China's main policies, such as the environmental and waste water processing business.

Finally, I would like to thank the Directors and all employees for their loyalty, diligence, professionalism, and contributions to the Group.

On behalf of the Board
Xu Zhong Ping
Chairman

Hong Kong, 22 June 2010

Management Discussion and Analysis

Results

For the year ended 31 March 2010, the Group recorded a turnover of approximately HK$147,311,000, representing a decrease of about 22.2% compared to that of 2009. The Group turned loss to profit with its profit attributable to owners of the Company of approximately HK$3,740,000 (2009: loss of HK$14,810,000). Gross profit margin was approximately 26.2% as compared to 21.9% in last year.

Business Review

For the year ended 31 March 2010, distribution costs of the Group amounted to approximately HK$11,246,000 (2009: HK$20,114,000). Administrative expenses of the Group for the year amounted to approximately HK$31,896,000 (2009: HK$33,404,000), representing a decrease of approximately 4.5% as compared to last year.

Prospects

With timely stimulus measures implemented by the Chinese government, the Chinese economy becomes one of the first to recover from the global financial turmoil. Confronting with complex and volatile external operating environment, the Group will adhere to the strategy guidelines and strive to turn challenges into opportunities, overcome various difficulties, and achieve stable and healthy business development in 2010.

The new management introduced in January 2010 has further strengthened and enriched the capability of the Group. China will continue to be the leading engine of growth for the global economy. The Group will focus on the development directions of the Great China to find new opportunities seeking stable growth, improving profitability through business restructuring, deepening reforms and strengthening internal control.

On 12 April 2010, the Company made an announcement for the acquisition of a waste water processing project. The Directors consider that with huge population base, China is far from water abundant. Based on the information from the Ministry of Water Resources of the PRC (中華人民共和國水利部), water resource available is only 2,200 cubic meters per capita in China compared with the average global water availability of 8,800 cubic meters per capita. With the population in China expected to grow, current water shortages may be exacerbated. To address water shortages and natural water resource pollution attributable to rapid growth in population, urbanization and industrialization in China, the Chinese government has been promulgating stricter environmental standards and invested significantly in water treatment projects to promote sustainable economic growth. Accordingly, the demand for water treatment infrastructure is expected to experience rapid growth. The Company will concentrate on the environmental technology in relation with the waste water processing business.

Employees and Remuneration Policy

As at 31 March 2010, the Group had 95 employees (2009: 111 employees). The remuneration policy and packages are reviewed annually by the management and the Remuneration Committee. The Group remunerates its employees based on their performance, work experience and the prevailing market price. The remuneration packages include basic salary, double pay, commission, insurance and mandatory provident fund. The Group operates a share options scheme for the purpose of providing incentives and rewards to (among others) eligible directors and employees of the Group to recognise their contribution to the success of the Group.

Liquidity and Financial Resources

Liquidity

The Group continued to maintain a solid financial position. As at 31 March 2010, cash and bank balances including pledged fixed deposits of the Group were HK$102,460,000 (2009: HK$130,947,000). The cash and bank balances consisted of about 69.4% in Hong Kong dollars, 16.3% in US dollars, 7.1% in Renminbi, 6.7% in Euro, and 0.5% in other currencies.

As at 31 March 2010, the Group had total assets of HK$260,726,000 (2009: HK$314,578,000) and total liabilities of HK$65,622,000 (2009: HK$126,669,000). As at 31 March 2010, the current ratio was 3.42 (2009: 2.16), calculated on the basis of current assets of HK$199,483,000 (2009: HK$259,738,000) over current liabilities of HK$58,244,000 (2009: HK$120,270,000).

The Group's bank borrowings amounted to HK$3,883,000 (2009: HK$6,114,000). The Group's borrowings, denominated in Hong Kong dollars and United States dollars, mainly comprise mortgage loans bearing floating interest rates. The Group's gearing ratio, being the ratio of the total borrowings to total assets, was 1.5% (2009: 1.9%).

Foreign exchange exposure and hedging

The Group's majority sales transactions are denominated in United States dollars, Renminbi and Hong Kong dollars while the purchases transactions are mainly denominated in Euro. As such, the Group is exposed to foreign exchange risk. The Group made use of forward contracts to manage its foreign exchange exposure in order to reduce net exposure to currency fluctuations.

Charge on assets

As at 31 March 2010, certain of the Group's land and buildings and investment properties with an aggregate carrying value amounting to HK$20,000,000 (2009: HK$16,200,000) and bank deposits of HK$381,000 (2009: HK$11,717,000) were pledged with banks to secure banking facilities granted to the Group. Included in pledged bank deposits are denominated in RMB334,000 (2009: RMB4,461,000) which are pledged by the Group's wholly owned subsidiary in Zhuhai, the PRC.

Executive Directors

Mr. Xu Zhong Ping, aged 47, was appointed as an executive Director on 31 December 2009. Mr. Xu has over 20 years' experience in enterprise management, business investment and international economic strategic cooperation. He has been a standing director of the China Council for the Promotion of International Economy and Culture* (中國國際經濟文化促進會) since 1996. Mr. Xu studied statistics and graduated from Nanjing University of Finance & Economics (formerly known as Nanjing Liangshi Economics College*), the PRC in 1986.

Mr. Xu was a director of each of the following private companies registered in Hong Kong, which was dissolved by striking off pursuant to Section 291 of the Companies Ordinance (Chapter 32, Laws of Hong Kong): CVIC Commercial Development Co., Limited (中創商業發展有限公司), Gorden Hong Kong Limited (高登香港有限公司), Jumbo Star Development Limited (百利星發展有限公司) and Rich Harbour Holdings Limited (譽港集團有限公司). According to Mr. Xu, each of the said companies was solvent at the time of it being struck off.

Mr. Zhang Fang Hong, aged 45, was appointed as an executive Director on 31 December 2009. Mr. Zhang holds a bachelor's degree in Economics from Nanjing University of Finance & Economics (formerly known as Nanjing Liangshi Economics College*), the PRC, a master's degree in Economics from Zhongnan University of Economics and Law (formerly known as Zhongnan University of Finance and Economics*), the PRC and an executive master's degree in business administration from China Europe International Business School, the PRC. He has served various executive roles in several companies in the PRC and Hong Kong. During the period from 2 October 2007 to 28 December 2007, Mr. Zhang served as an executive director of Great World Company Holdings Limited (formerly known as T S Telecom Technologies Limited), the shares of which are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") (stock code: 8003). He is currently a director of Best Wish Technology Limited (展望科技有限公司), which is a private company incorporated in Hong Kong.

Ms. Song Xuan, aged 46, was appointed as an executive Director of the Company on 21 September 2007. She has extensive experience in accounting and finance. She holds a bachelor degree in economics from Beijing Union University. She was an executive director of Neo-China Land Group (Holdings) Limited, the shares of which are listed on the Stock Exchange (stock code: 563), from 31 March 2005 to 15 June 2006.

Mr. Xu Xiao Yang, aged 43, is an executive Director of the Company. He was appointed as an executive Director of the Company on 21 July 2008. He has over 10 years of experience in foreign trading, logistics, energy, education and real property businesses. Before joining the Company, he has worked as an executive director of Australian International Investment Group and Australia Queens land Education Investment Group. Mr. Xu graduated from Beijing Foreign Language Institute and was major in English.

Non-executive Director

Mr. Ge Ze Min, aged 57, was appointed as a non-executive Director on 31 December 2009. Mr. Ge is a senior economist and holds a bachelor's degree in Finance from the Central University of Finance and Economics (formerly known as Central College of Finance and Economics*), the PRC. Since 2003, Mr. Ge has been the assistant to the general manager and the head of international operations of Beijing Capital Co., Limited and is in charge of exploring overseas business opportunities and overseeing the company's overseas operations. Mr. Ge also held various management positions in several companies both in the PRC and Hong Kong. He is also a general manager and a director of Beijing Capital (Hong Kong) Limited. Mr. Ge served as a non-executive director of Richly Field China Development Limited (formerly known as Dickson Group Holdings Limited) from 23 July 2008 to 20 February 2009, the shares of which are listed on the Stock Exchange (stock code: 313) and he is currently an executive director of New Capital International Investment Limited, the shares of which are listed on the Stock Exchange (stock code: 1062). Mr. Ge was a director of Superford Industries Limited (盛裕實業有限公司), a private company registered in Hong Kong, which was dissolved by striking off pursuant to Section 291 of the Companies Ordinance. According to Mr. Ge, the said company was solvent at the time of it being struck off.

Independent Non-executive Directors

Mr. Wong Kam Wah, aged 51, was appointed as an independent non-executive Director on 31 December 2009. He is the chairman of the Audit Committee, Nomination Committee and Remuneration Committee respectively. Mr. Wong is currently an independent non-executive director of South East Group Limited, the shares of which are listed on the Stock Exchange (stock code: 726). He is a fellow member of the Association of Chartered Certified Accountants and an associate member of each of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators. Mr. Wong is currently the principal of a certified public accountants firm. He has extensive experience in accounting and auditing work.

Dr. Zhu Nan Wen, aged 41, was appointed as an independent non-executive Director on 31 December 2009. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee respectively. Dr. Zhu obtained his doctoral degree in Environmental Engineering, Tongji University, the PRC in 2000, a master degree in microbiology, Zhe Jiang University (formerly known as Zhejiang Agriculture University* (浙江農業大學)), the PRC in 1996, and a bachelor degree in crop, Faculty of Agronomy*, Zhe Jiang University, the PRC in 1991. Dr. Zhu has been working at Shanghai Jiao Tong University, the PRC since 2000. He has been a professor of School of Environmental Science and Engineering, Shanghai Jiao Tong University, the PRC since August 2005. He was an associate professor and a lecturer in the same school during the period from August 2001 to August 2005 and from March 2000 to July 2001 respectively. Dr. Zhu is also the head of the Institute of Solid Waste Treatment and Disposal* (固體廢棄物處理處置技術研究所) at Shanghai Jiao Tong University, the PRC and is appointed as an expert in assessment and planning in selected projects of the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部), Science and Technology Commission of Shanghai Municipality (上海市科學技術委員會), the PRC and Shanghai Chengtou Corporation (上海市城市建設投資開發總公司), the PRC. Dr. Zhu has participated in various investment projects in wastewater treatment, environmental microbiology and waste treatment related fields which were registered as invention patents in the PRC.

Mr. Gao Ling, aged 55, was appointed as an independent non-executive Director of the Company on 21 September 2007. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee. He has extensive experience in accounting. He received a master degree in politics and laws from Capital Normal University, the PRC. Mr. Gao is a certified public accountant, certified economist and certified asset valuer in the PRC. Mr. Gao is an independent non-executive director of Neo-China Land Group (Holdings) Limited, the shares of which are listed on the Stock Exchange (stock code: 563).

Save as disclosed above, each of the above Directors did not hold any other positions with the Company and/or any of its subsidiaries and did not hold any other directorships in any listed public companies in the last three years.

Save as disclosed above, none of the above Directors have any relationship with any other Directors, senior management, substantial shareholders (as defined in the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange) or controlling shareholder (as defined in the Listing Rules) of the Company.

Company Secretary

Li Wang Hing, Nelson, is the Company Secretary of the Company. He is also the Finance Manager and Qualified Accountant of the Group. Mr. Li holds a master degree of business administration from the University of Leicester in U.K. and a master degree of professional accounting from the Hong Kong Polytechnic University. He is an associate member of the Hong Kong Institute of Certified Public Accountants and is also a qualified Chartered Secretary designated as ACIS and ACS. In 1999–2000, he was the President of the Hong Kong Polytechnic University Postgraduate Association. At present, he is the Honorary Auditor of Hong Kong Seamen's Union and the Council Member of Shipping Employees Union.

* *the unofficial English translation or translation for identification purpose only*

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 March 2010.

Principal Place of Business

The Company is a company incorporated in the Cayman Islands and has its principal place of business at Unit 1003–5, 10th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

Principal Activities

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 18 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 13 to the financial statements.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	19.0%	
Five largest customers in aggregate	72.4%	
The largest supplier		22.9%
Five largest suppliers in aggregate		59.6%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Financial Statements

The profit of the Group for the year ended 31 March 2010 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 29 to 113.

Transfer to Reserves

Profit attributable to owners, before dividends, of HK$3,740,000 (2009: loss of HK$14,827,000) have been transferred to reserves. Other movements in reserves are set out in note 32(a) to the financial statements.

The Directors do not recommend payment of final dividend for the year ended 31 March 2010 (2009: Nil).

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

Directors

The Directors during the financial year and up to the date of this report were:

Executive Directors

Xu Zhong Ping *(Chairman)*	(appointed on 31 December 2009)
Zhang Fang Hong	(appointed on 31 December 2009)
Song Xuan	
Xu Xiao Yang	
Li Song Xiao	(resigned on 13 January 2010)
Yuan Kun	(resigned on 13 January 2010)
Lu Zhao Qun	(resigned on 21 April 2009)

Non-Executive Director

Ge Ze Min	(appointed on 31 December 2009)

Independent Non-Executive Directors

Wong Kam Wah	(appointed on 31 December 2009)
Zhu Nan Wen	(appointed on 31 December 2009)
Gao Ling	
Cui Yong	(resigned on 13 January 2010)
Zhang Qing Lin	(resigned on 13 January 2010)

Mr. Xu Zhong Ping and Mr. Zhang Fang Hong will retire from the offices as executive Directors; Mr. Ge Ze Min will retire from the office as a non-executive Director and Mr. Wong Kam Wah and Dr. Zhu Nan Wen will retire from the offices as independent non-executive Directors at the forthcoming annual general meeting in accordance with article 112 of the Articles of Association of the Company. Mr. Gao Ling will retire from the office as an independent non-executive Director at the forthcoming annual general meeting in accordance with article 108(A) of the Articles of Association of the Company. All retiring directors, being eligible, will offer themselves for re-election.

All directors (including non-executive and independent non-executive Directors) of the Company are subject to the general provisions in respect of the retirement and rotation of directors at the annual general meeting pursuant to the Company's Articles of Association.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' and Chief Executive's Interests in Shares and Underlying Shares

The Directors and chief executive who held office at 31 March 2010 had the following interests in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests required to be kept under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

Interests in issued shares of the Company

Name of Director	Capacity	No. of ordinary shares interested	% of the Company's issued share capital
Xu Xiao Yang	Beneficial owner	20,000,000	0.90%
Xu Zhong Ping *(note)*	Interest held by a controlled corporation	1,200,000,000	53.74%

Note:

These 1,200,000,000 shares were held under the name of Gentle International Holdings Limited ("Gentle"). Mr. Xu Zhong Ping owns 60% of the issued share capital of Gentle. Mr. Xu was therefore deemed to be interested in the said 1,200,000,000 shares held by Gentle under Part XV of the SFO.

Apart from the foregoing, as at 31 March 2010, none of the Directors, the chief executive or any of their spouses or children under eighteen years of age has interests in the shares, underlying shares and debentures of the Company, or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

The Company has a share option scheme which was adopted on 28 March 2002, whereby the Directors are authorised, at their discretion, to invite eligible participants to take up options at a nominal consideration to subscribe for shares of the Company. The purpose of the share option scheme is to enable the Group to grant options to the eligible participants including employees, executive and non-executive Directors, suppliers and customers and shareholders of any members of the Group and any persons or entities that provided research, development or other technical support to the Group or any other group or classes of participants determined by the Directors as incentive or rewards for their contribution to the Group. The share option scheme shall be valid and effective for a period of ten years ending on 27 March 2012, after which no further options will be granted.

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of offer. The options vest in four equal instalments with the first installment vesting from the date of grant. The second, third and fourth instalments vest from one, two and three years after the date of grant respectively. The options are exercisable after the vesting date but within a period of five years from the date of grant. Each option gives the holder the right to subscribe for one ordinary share in the company.

The total number of securities available for issue under the share option scheme as at 31 March 2010 was 25,600,000 shares which represents 1.15% of the issued share capital of the Company as at 31 March 2010. The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12–month period is limited to 1% of the Company's ordinary shares in issue.

Offer of an option shall have been accepted when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance of HK$1 is received within such time as may be specified in the offer, which shall not be later than 21 days from the date of offer. The share option scheme will expire on 27 March 2012.

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 2(q)(ii), note 30 and note 31 to the financial statements respectively.

Apart from the foregoing, at no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders' Interests in Shares

As at 31 March 2010, the following persons, other than a Director or chief executive of the Company, had interest or short positions in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

	Capacity	**No. of ordinary shares of the Company interested**	**% of the Company's issued share capital**
Gentle International Holdings Limited	Beneficial owner	1,200,000,000	53.74%
Li Song Xiao	Beneficial owner	336,624,000	15.08%
Chung Cheong Group Limited	Beneficial owner	172,304,000	7.72%
Mo Huiqin *(note)*	Interest held by a controlled corporation	172,304,000	7.72%

Note:

Mo Huiqin is the sole shareholder of Chung Cheong Group Limited and was therefore deemed to be interested in the said 172,304,000 shares held by Chung Cheong Group Limited under Part XV of the SFO.

Save as disclosed above, as at 31 March 2010, so far as is known to the Directors, no person (other than the Directors whose interests are set out in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' Interests in Contracts

Save as disclosed in note 34 to the financial statements, no contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

Directors Interests in Competing Business

None of the Directors or their respective associates has any interests in a business which competes or may compete with the business of the Group.

Share Capital

On 26 January 2010, the Company announced that each of the issued and unissued existing share of the Company of HK$0.05 each ("Existing Shares") in the share capital of the Company be subdivided ("Shares Subdivision") into two (2) subdivided shares of HK$0.025 each ("Subdivided Shares") and the board lot size of the shares of the Company be changed from 16,000 Existing Shares to 8,000 Subdivided Shares.

At the extraordinary general meeting of the Company held on 1 March 2010, the Share Subdivision was duly passed by the shareholders of the Company (the "Shareholders"). Following the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Subdivided Shares, the Share Subdivision and change of board lot size became effective on 2 March 2010 and the authorised share capital of the Company remains at HK$200,000,000 divided into 8,000,000,000 Subdivided Shares of HK$0.025 each. Since 2 March 2010 and up to the date of this report, the total number of issued shares of the Company was 2,232,992,000.

Details of the movements in share capital of the Company during the year are set out in note 31 to the financial statements.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 March 2010 (2009: Nil).

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

Bank Loans and Overdrafts

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2010 are set out in note 25 to the financial statements.

Contingent Liabilities

At 31 March 2010, the Company gave corporate guarantees for banking facilities of HK$21,958,000 (2009: HK$105,320,000) granted to certain subsidiaries. The maximum liability of the Company at 31 March 2010 under the guarantees issued was the facilities utilized by the subsidiaries totalling HK$10,493,000 (2009: HK$31,903,000). The Directors do not consider it probable that a claim will be made against the Company.

Subsequent events

On 9 April 2010, the Company entered into an agreement to purchase 100% equity interest in Fanhe (Beijing) Water Investment Co., Ltd ("Fanhe Water") at a total consideration of HK$55,000,000. Fanhe Water is an investment holding company and its subsidiary, Fanhe (Hulu Island) Water Investment Co., Ltd ("Fanhe Hulu"), is engaged in sewage treatment business in mainland China pursuant to a Build-Operate-Transfer contract ("BOT contract") dated 23 April 2010. According to the BOT contract, Fanhe Hulu was granted the concessionary operating rights for a period of 30 years in respect of a waste water processing project ("Waste Water Processing Project") in Hulu Island City. In addition, Fanhe Hulu has to make commitment in the BOT Project which involves in expansion and upgrade the effluent standard of the Waste Water Processing Project. In return for constructing, operating and maintaining the BOT Project and providing sewage treatment services, Fanhe Hulu will receive sewage treatment fees from the Finance Bureau of Hulu Island City. The acquisition was completed on 27 April 2010.

As at the date of this report, the Group has not finalized the fair value assessment for the acquiree's identifiable assets, liabilities and contingent liabilities as at the date of acquisition.

Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 116 of the annual report.

Properties

Particulars of the major properties and property interest of the Group are shown on pages 114 and 115 of the annual report.

Retirement Schemes

As from 1 December 2000, the Group operates a mandatory provident fund scheme (the "MPF Scheme"), managed by an independent approved MPF trustee, under the requirements of the Mandatory Provident Fund Schemes Ordinance (Cap. 485, Laws of Hong Kong) for employees employed under the jurisdiction of the Employment Ordinance (Cap. 57, Laws of Hong Kong).

The MPF Scheme is a defined contribution retirement scheme. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK$20,000.

The employees in the Group's PRC subsidiaries are members of the state-managed retirement schemes. The PRC subsidiaries are required to contribute a specified percentage of their payroll to these schemes. The only obligation of the Group with respect to these retirement schemes is to make the specified contributions.

Confirmation of Independence

The company received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this annual report.

Auditor

KPMG resigned as auditor of the Company on 1 November 2007 while CCIF CPA Limited was appointed by the Board to fill the casual vacancy.

Apart from the foregoing, there were no other changes in auditor of the Company in any of the preceding three years. CCIF CPA Limited shall retire and being eligible, offer themselves for re-appointment. A resolution for the reappointment of CCIF CPA Limited as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board
Xu Zhong Ping
Chairman

Hong Kong, 22 June 2010

Corporate Governance Report

The Board of the Company is pleased to present this corporate governance report in the Group's annual report for the year ended 31 March 2010.

The manner in which the principles and code provisions in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules are applied and implemented is explained as follows:

Corporate Governance Practices

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

Throughout the year ended 31 March 2010, the Company has applied the principles and complied with the code provisions set out in the CG Code, save for certain deviations from the code provisions, details of which are explained in the relevant paragraphs below.

The Company has also put in place certain recommended best practices as set out in the CG Code.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices periodically to ensure these continue to meet the requirements of the CG Code and align with the latest developments.

The Board

Responsibilities

The management and control of the business of the Company are vested in its Board. It is the duty of the Board to establish policies, strategies and plans, and to provide leadership in the attainment of the objective of creating value to shareholders.

The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their respective terms of reference.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Board Composition

The Company has adopted the recommended best practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors.

The Board currently comprises eight members, consisting of four executive Directors, one non-executive Director and three independent non-executive Directors.

The directors during the financial year and up to the date of this report were:

Executive Directors:

Xu Zhong Ping *(Chairman)*	(appointed on 31 December 2009)
Zhang Fang Hong	(appointed on 31 December 2009)
Song Xuan	
Xu Xiao Yang	
Li Song Xiao	(resigned on 13 January 2010)
Yuan Kun	(resigned on 13 January 2010)
Lu Zhao Qun	(resigned on 21 April 2009)

Non-Executive Director:

Ge Ze Min	(appointed on 31 December 2009)

Independent Non-Executive Directors:

Wong Kam Wah	(appointed on 31 December 2009, Chairman of Audit Committee, Remuneration Committee and Nomination Committee)
Zhu Nan Wen	(appointed on 31 December 2009, Member of Audit Committee, Remuneration Committee and Nomination Committee)
Gao Ling	(Member of Audit Committee, Remuneration Committee and Nomination Committee)
Cui Yong	(resigned on 13 January 2010, Chairman of Remuneration Committee and Nomination Committee, Member of Audit Committee)
Zhang Qing Lin	(resigned on 13 January 2010, Member of Audit Committee, Remuneration Committee and Nomination Committee)

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the CG Code.

Members of the Board are unrelated to one another.

During the year ended 31 March 2010, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. On this basis, the Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

Corporate Governance Report

The executive Directors, with their intimate knowledge of the business, take on the primary responsibility for the leadership for the Company while the non-executive Director and independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Independent non-executive Directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

At present, the Company does not have any officer with the title of "Chief Executive Officer". The Chairman of the Board provides overall leadership for the Board and the Group's business. The daily management is delegated to the executive Directors and the senior management.

The Board shall review its structure from time to time to ensure appropriate action is being taken should suitable circumstances arise.

Appointment, Re-election and Removal of Directors

In accordance with article 108(A) of the Articles of Association of the Company, all Directors are subject to retirement by rotation at least once every three years. In accordance with article 112 of the Articles of Association of the Company, any new Director appointed to fill a causal vacancy shall submit himself for re-election by shareholders at the next following general meeting after appointment and any new Director appointed as an addition to the Board shall submit himself for re-election by shareholders at the next following annual general meeting after appointment.

Code provision A.4.1 of the CG Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

There is no service contract between the Company and Mr. Ge Ze Min, the non-executive Director, Mr. Wong Kam Wah, Dr. Zhu Nan Wen and Mr. Gao Ling, the independent non-executive Directors. They were not appointed for any specific length of service with the Company.

Although the non-executive Director and independent non-executive Directors do not have a specific term of appointment, all Directors are subject to retirement by rotation once every three years in accordance with the Company's Articles of Association.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Nomination Committee

As at 31 March 2010, the Nomination Committee comprised three members, namely Mr. Wong Kam Wah (Chairman), Dr. Zhu Nan Wen and Mr. Gao Ling, all of them are independent non-executive Directors.

The principal duties of the Nomination Committee include:

(a) to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

(b) to develop and formulate relevant procedures for nomination and appointment of Directors;

(c) to identify individuals suitably qualified to become a Board member;

(d) to make recommendations to the Board on selection or appointment of individuals nominated for directorships and appointment or re-appointment of Directors and succession planning for Directors; and

(e) to assess the independence of the independent non-executive Directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Nomination Committee met once during the year ended 31 March 2010 and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company and the attendance records are set out under "Directors' Attendance Records" on page 22.

In accordance with the Company's Articles of Association, Mr. Xu Zhong Ping, Mr. Zhang Fang Hong, Mr. Ge Ze Min, Mr. Wong Kam Wah, Dr. Zhu Nan Wen and Mr. Gao Ling shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the next forthcoming annual general meeting of the Company.

A circular containing detailed information of the Directors standing for re-election at the forthcoming annual general meeting would be sent to the shareholders.

Induction and Continuing Development for Directors

Each newly appointed Director should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company shall consider to engage external legal and other professional advisers for providing professional briefing and training programmes to the Directors where circumstances arise. Continuing briefings and professional development to Directors will be arranged whenever necessary.

Board Meetings

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least fourteen days before the meetings and reasonable notice is generally given for other Board meetings. For committee meetings, notices are served in accordance with the required notice period stated in the relevant terms of reference.

Board papers together with all appropriate, complete and reliable information are sent to all Directors/committee members at least three days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management, Financial Controller or Company Secretary attended some regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary/secretary of the Committees is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

The Company's Articles of Association contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting.

Directors' Attendance Records

During the year ended 31 March 2010, two regular Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Code provision A.1.1 stipulates that Board meetings should be held at least four times a year at approximately quarterly intervals. There were twenty-three Board meetings held during the year under review, two of which were regular meetings held for approving the final results for the year ended 31 March 2009 and interim results for the period ended 30 September 2009 respectively. The other Board meetings were held as and when the business and operational needs arose.

The attendance records of each Director at the meetings of the Board, Audit Committee, Remuneration Committee and Nomination Committee during the year ended 31 March 2010 are set out below:

	Attendance/Number of Meetings			
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:				
Xu Zhong Ping (appointed on 31 December 2009)	12/23	–	–	–
Zhang Fang Hong (appointed on 31 December 2009)	12/23	–	–	–
Song Xuan	10/23	–	–	–
Xu Xiao Yang	10/23	–	–	–
Li Song Xiao (resigned on 13 January 2010)	9/23	–	–	–
Yuan Kun (resigned on 13 January 2010)	13/23	–	–	–
Lu Zhao Qun (resigned on 21 April 2009)	1/23	–	–	–
Non-Executive Director:				
Ge Ze Min (appointed on 31 December 2009)	4/23	–	–	–
Independent Non-Executive Directors:				
Wong Kam Wah (appointed on 31 December 2009)	4/23		1/1	1/1
Zhu Nan Wen (appointed on 31 December 2009)	3/23		1/1	1/1
Gao Ling	8/23	2/2	1/1	1/1
Cui Yong (resigned on 13 January 2010)	7/23	2/2		
Zhang Qing Lin (resigned on 13 January 2010)	7/23	2/2		

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding Directors' securities transactions.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 March 2010.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

Delegation by the Board

The Board takes responsibility for all major matters of the Company including the setting of objectives and overall strategies, the approval and monitoring of all policy matters, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The Board delegates day-to-day management, administration and operation of the Company to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management. The Board has the full support of the senior management to discharge its responsibilities.

The Board has established 3 committees, namely the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website and are available to shareholders upon request.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 March 2010 are set out in note 8 to the financial statements.

Remuneration Committee

As at 31 March 2010, the Remuneration Committee comprised three members, namely Mr. Wong Kam Wah (Chairman), Dr. Zhu Nan Wen and Mr. Gao Ling, all of them are independent non-executive Directors.

The primary objectives of the Remuneration Committee include:

(a) to make recommendations on the establishment of procedures for developing remuneration policy and structure of the executive Directors and the senior management, such policy shall ensure that no Director or any of his associates will participate in deciding his own remuneration;

(b) to make recommendations on the remuneration packages of the executive Directors and the senior management;

(c) to review and approve the remuneration packages of the executive Directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions; and

(d) to review and approve the compensation arrangements for the executive Directors and the senior management.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The remuneration of the Directors has been determined with reference to their respective qualification, experience, duties and responsibilities in the Company as well as the Group's results and performance for the financial year concerned. The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management for the year under review.

The Remuneration Committee held one meeting during the year ended 31 March 2010 and the attendance records are set out under "Directors' Attendance Records" on page 22.

Accountability and Audit

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2010.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and the assets of the Company and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

The Board has conducted and was satisfied with the result of a review of the effectiveness of the system of internal control of the Group.

Audit Committee

As at 31 March 2010, the Audit Committee comprised three members, namely Mr. Wong Kam Wah (Chairman), Dr. Zhu Nan Wen and Mr. Gao Ling, all of them are independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include the following:

(a) to review the financial statements and reports and consider any significant or unusual items raised by staff responsible for the accounting and financial reporting function or external auditor before submission to the Board;

(b) to review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor; and

(c) to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 March 2009 and the interim results for the period ended 30 September 2009, the financial reporting and compliance procedures, risk management review and processes and the re-appointment of the external auditor.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no different view taken by the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditor.

The Audit Committee held two meetings during the year ended 31 March 2010 and the attendance records are set out under "Directors' Attendance Records" on page 22.

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 27 to 28.

During the year ended 31 March 2010, the remuneration paid to the Company's auditor, CCIF CPA Limited, is set out below:

Category of services	Fee paid/payable
Audit service	HK$900,000
Non-audit service — reviewing the preliminary announcement of results	HK$40,000
Total	HK$940,000

Communications with Shareholders and Investors

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The general meetings of the Company provide an important channel for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Audit Committee, Remuneration Committee and Nomination Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, normally attend the annual general meeting and other relevant shareholders' meetings to answer questions at the shareholders' meetings.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

As a channel to promote effective communication, the Company maintains a website at www.yardwaygroup.com.hk, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong or via facsimile at (852) 2511-1878 for any inquiries.

Code provision E.1.2 stipulates that the Chairman should attend the annual general meeting. Mr. Li Song Xiao, the former Chairman of the Board, was unable to attend the 2009 annual general meeting due to business engagement, but Mr. Xu Xiao Yang, an executive Director, has been delegated to attend and answer questions on his behalf at the 2009 annual general meeting.

Shareholders' Rights

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholders' meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the website of the Company and Hong Kong Exchanges and Clearing Limited after the shareholders' meeting.

CCIF
CCIF CPA LIMITED
34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF YARDWAY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Yardway Group Limited (the "Company") set out on pages 29 to 113, which comprise the consolidated and Company statements of financial position as at 31 March 2010 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 22 June 2010

Alvin Yeung Sik Hung
Practising Certificate Number P05206

Consolidated Income Statement

For the year ended 31 March 2010

	Note	2010 HK$'000	2009 HK$'000
Turnover	4	**147,311**	189,357
Cost of sales		**(108,729)**	(147,867)
Gross profit		**38,582**	41,490
Other revenue	5(a)	**1,130**	1,140
Other net income/(expenses)	5(b)	**5,891**	(2,383)
Distribution costs		**(11,246)**	(20,114)
Administrative expenses		**(31,896)**	(33,404)
Net surplus on revaluation of leasehold land and buildings	15(a)	**739**	505
Valuation gain/(loss) on investment properties	16	**4,040**	(870)
PROFIT/(LOSS) FROM OPERATIONS		**7,240**	(13,636)
Finance costs	6(a)	**(262)**	(1,019)
PROFIT/(LOSS) BEFORE TAXATION	6	**6,978**	(14,655)
Income tax	7(a)	**(3,238)**	(172)
PROFIT/(LOSS) FOR THE YEAR		**3,740**	(14,827)
Attributable to:			
Owners of the Company	10&32(a)	**3,740**	(14,810)
Minority interests	32(a)	**—**	(17)
PROFIT/(LOSS) FOR THE YEAR		**3,740**	(14,827)
EARNINGS/(LOSS) PER SHARE (HK cents)	12		
— Basic (2009: restated)		**0.17**	(0.94)
— Diluted (2009: restated)		**0.17**	(0.94)

The notes on pages 37 to 113 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2010

	Note	2010 HK$'000	2009 HK$'000
Profit/(loss) for the year		**3,740**	(14,827)
Other comprehensive income/(loss) for the year			
Exchange differences on translation of financial statements of PRC subsidiaries		**260**	448
Revaluation surplus on leasehold land and buildings		**3,195**	466
Total other comprehensive income, net of tax		**3,455**	914
Total comprehensive income/(loss) for the year, net of tax		**7,195**	(13,913)
Attributable to:			
Owners of the Company	10&32(a)	**7,195**	(13,896)
Minority interest		**–**	(17)
		7,195	(13,913)

The notes on pages 37 to 113 form part of these financial statements.

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

As at 31 March 2010

	Note	**2010** **HK$'000**	2009 HK$'000
NON-CURRENT ASSETS			
Interest in leasehold land held for own use under operating leases	14	**1,075**	1,090
Property, plant and equipment	15	**31,538**	47,618
Investment properties	16	**28,630**	5,890
Goodwill	17	**—**	—
Deferred tax assets	27(b)	**—**	242
		61,243	54,840
CURRENT ASSETS			
Trading securities	19	**32,203**	26,385
Inventories	20	**8,196**	22,314
Trade and other receivables	21	**56,519**	79,987
Current taxation recoverable	27(a)	**105**	105
Pledged bank deposits	23	**381**	11,717
Cash and cash equivalents	23	**102,079**	119,230
		199,483	259,738
CURRENT LIABILITIES			
Trade and other payables	24	**53,679**	116,695
Bank loans and overdrafts	25	**333**	2,231
Obligations under finance leases	26	**—**	396
Current taxation	27(a)	**2,358**	256
Provision for warranty	28	**1,874**	692
		58,244	120,270
NET CURRENT ASSETS		**141,239**	139,468

Consolidated Statement of Financial Position

As at 31 March 2010

	Note	**2010 HK$'000**	2009 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**202,482**	194,308
NON-CURRENT LIABILITIES			
Bank loans	25	**3,550**	3,883
Obligations under finance leases	26	**—**	66
Deferred tax liabilities	27(b)	**3,299**	2,450
Provision for warranty	28	**529**	—
		7,378	6,399
NET ASSETS		**195,104**	187,909
CAPITAL AND RESERVES			
Share capital	31	**55,825**	55,825
Reserves	32	**139,279**	132,084
TOTAL EQUITY		**195,104**	187,909

Approved and authorised for issue by the board of directors on 22 June 2010.

Xu Zhong Ping
Director

Zhang Fang Hong
Director

The notes on pages 37 to 113 form part of these financial statements.

Statement of Financial Position

As at 31 March 2010

	Note	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Plant and equipment	15	**1,024**	81
Interest in subsidiaries	18	**167,501**	90,470
		168,525	90,551
CURRENT ASSETS			
Trade and other receivables	21	**1,366**	259
Cash and cash equivalents	23	**2,672**	91,302
		4,038	91,561
CURRENT LIABILITIES			
Trade and other payables	24	**870**	816
Financial guarantee liability	29	**55**	1,260
		925	2,076
NET CURRENT ASSETS		**3,113**	89,485
NET ASSETS		**171,638**	180,036
CAPITAL AND RESERVES			
Share capital	31	**55,825**	55,825
Reserves	32	**115,813**	124,211
TOTAL EQUITY		**171,638**	180,036

Approved and authorised for issue by the board of directors on 22 June 2010.

Xu Zhong Ping
Director

Zhang Fang Hong
Director

The notes on pages 37 to 113 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2010

		Attributable to owners of the Company									
	Note	**Share capital**	**Share premium**	**Contributed surplus**	**Exchange reserve**	**Revaluation reserve — land and buildings**	**Other reserves**	**Retained earnings**	**Total**	**Minority interests**	**Total equity**
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2008		28,825	5,131	(180)	2,033	12,332	1,944	71,018	121,103	585	121,688
Comprehensive income											
Exchange differences on translation of the financial statements of PRC subsidiaries		—	—	—	448	—	—	—	448	—	448
Revaluation surplus, net of deferred tax		—	—	—	—	466	—	—	466	—	466
Disposal of leasehold land and buildings		—	—	—	—	(1,627)	—	1,627	—	—	—
Loss for the year		—	—	—	—	—	—	(14,810)	(14,810)	(17)	(14,827)
Total comprehensive income		—	—	—	448	(1,161)	—	(13,183)	(13,896)	(17)	(13,913)
Transactions with owners											
Issue of shares	31(a)(i)	27,000	54,000	—	—	—	—	—	81,000	—	81,000
Shares issued expenses		—	(298)	—	—	—	—	—	(298)	—	(298)
Acquisition of minority interests		—	—	—	—	—	—	—	—	(568)	(568)
Transfer to other reserves		—	—	—	—	—	350	(350)	—	—	—
Total transactions with owners		27,000	53,702	—	—	—	350	(350)	80,702	(568)	80,134
At 31 March 2009		55,825	58,833	(180)	2,481	11,171	2,294	57,485	187,909	—	187,909
At 1 April 2009		55,825	58,833	(180)	2,481	11,171	2,294	57,485	187,909	—	187,909
Comprehensive income											
Exchange differences on translation of the financial statements of PRC subsidiaries		—	—	—	260	—	—	—	260	—	260
Revaluation surplus, net of deferred tax		—	—	—	—	3,195	—	—	3,195	—	3,195
Profit for the year		—	—	—	—	—	—	3,740	3,740	—	3,740
Total comprehensive income		—	—	—	260	3,195	—	3,740	7,195	—	7,195
Transaction with owners											
Transfer to other reserves		—	—	—	—	—	276	(276)	—	—	—
At 31 March 2010		55,825	58,833	(180)	2,741	14,366	2,570	60,949	195,104	—	195,104

The notes on pages 37 to 113 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2010

	Note	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES			
Profit/(loss) before taxation		**6,978**	(14,655)
Adjustments for:			
Valuation (gain)/loss on investment properties		**(4,040)**	870
Net surplus on revaluation of leasehold land and buildings		**(739)**	(505)
Net loss/(gain) from fair value changes of derivative financial instruments		**–**	(9)
Depreciation		**3,404**	3,566
Amortisation of land lease premium		**24**	24
Impairment losses on trade receivables		**443**	1,935
Impairment loss on goodwill		**–**	332
Write-down of inventories		**1,792**	2,211
Finance costs		**262**	1,019
Dividend income from listed securities		**(2)**	(1)
Interest income		**(102)**	(621)
Net loss on disposal of property, plant and equipment		**34**	43
Net (gain)/loss on sale of trading securities		**(175)**	10
Net unrealised (gain)/loss on trading securities at fair value		**(5,908)**	3,558
Foreign exchange loss		**73**	160
OPERATING PROFIT/(LOSS) BEFORE CHANGES IN WORKING CAPITAL		**2,044**	(2,063)
Decrease in inventories		**12,400**	3,946
Decrease in trade and other receivables		**23,372**	45,363
Decrease in trade and other payables		**(63,693)**	(23,820)
Increase/(decrease) in provision for warranty		**1,713**	(490)
CASH (USED IN)/GENERATED FROM OPERATIONS		**(24,164)**	22,936
Income tax refund/(paid)			
Hong Kong		**(258)**	2,008
The People's Republic of China ("PRC")		**(655)**	(1,125)
		(913)	883
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		**(25,077)**	23,819

Consolidated Statement of Cash Flows

For the year ended 31 March 2010

	Note	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES			
Payment for acquisition of minority interests in a subsidiary		–	(900)
Payment for the purchase of property, plant and equipment		(1,228)	(1,613)
Proceeds from disposal of property, plant and equipment		138	993
Payment for purchase of trading securities		(731)	(29,970)
Proceeds from sale of trading securities		996	58
Decrease/(increase) in pledged bank deposits		11,782	(3,336)
Interest income received		102	621
Dividends received from listed securities		2	1
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		11,061	(34,146)
FINANCING ACTIVITIES			
Capital element of finance lease rentals paid		(462)	(396)
Proceeds from new bank loans		7,469	83,797
Repayment of bank loans		(9,538)	(93,286)
Net proceeds from issue of new shares		–	80,702
Interest paid		(200)	(966)
Finance charges on finance lease rentals paid		(62)	(53)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(2,793)	69,798
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(16,809)	59,471
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		119,069	59,880
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET		(181)	(282)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23	102,079	119,069

The notes on pages 37 to 113 form part of these financial statements.

1. Organisation and principal activities

Yardway Group Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 31 August 2001 and its shares are listed on Main Board of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of the subsidiaries are set out in note 18 to the financial statements.

2. Significant accounting policies

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2010 comprise the Company and its subsidiaries (together referred to as the "Group").

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. These financial statements are presented in Hong Kong dollars ("HK$"), rounded to the nearest thousand except for per share data. Hong Kong dollar is the Company's functional and presentation currency.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— investment in equity securities (see note 2(d));

— derivative financial instruments (see note 2(f));

— leasehold land and buildings (see note 2(i)); and

— investment property (see note 2(g)).

2. Significant accounting policies (Continued)

b) Basis of preparation of the financial statements (Continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period, in which the estimate is revised if the revision affects only that period or in the period, of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 40.

c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an interest in a subsidiary is stated at cost less impairment losses (see note 2(j)).

d) Investment in equity securities

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognsied in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2(t)(iv) and (v) respectively.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

2. Significant accounting policies (Continued)

e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(j)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

g) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(i)) to earn rental income and/or capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the statement of financial position at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(t)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(i).

2. Significant accounting policies (Continued)

h) Property, plant and equipment

The following properties held for own use are stated in the statement of financial position at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation:

— land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 2(i)).

Revaluations are performed with sufficient regularity to ensure the carrying amount of these assets does not differ materially from that which would be determined using fair values at the end of the reporting period.

Changes arising on the revaluation of properties held for own use are generally dealt with in reserves, the only exceptions are as follows:

— when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

— when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

Other items of property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained earnings.

2. Significant accounting policies (Continued)

h) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years from the date of completion.

— Furniture, fixtures and equipment: 5 years

— Motor vehicles: 3 to 5 years

No depreciation is provided in respect of construction in progress.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

— land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

2. Significant accounting policies (Continued)

i) Leased assets (Continued)

ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

j) Impairment of assets

i) Impairment of investment in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries, associates and jointly controlled entities: see note 2(j)(ii)) and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— it becomes probable that the debtor will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2. Significant accounting policies (Continued)

j) Impairment of assets (Continued)

i) Impairment of investment in equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired.

— interest in leasehold land held for own use under operating leases;

— property, plant and equipment; and

— interest in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2. Significant accounting policies (Continued)

j) Impairment of assets (Continued)

ii) Impairment of other assets (Continued)

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

k) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(j)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2. Significant accounting policies (Continued)

l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(j)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(j)).

n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

o) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(s)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

2. Significant accounting policies (Continued)

q) Employee benefits

i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

iii) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2. Significant accounting policies (Continued)

r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

2. Significant accounting policies (Continued)

r) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    — the same taxable entity; or

    — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

s) Financial guarantees issued, provisions and contingent liabilities

i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary to the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

2. Significant accounting policies (Continued)

s) Financial guarantees issued, provisions and contingent liabilities (Continued)

ii) *Other provisions and contingent liabilities*

Provisions are recognised for liabilities of other uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

t) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) *Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

ii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

iii) *Commission and service income*

Commission and service income are recognised when services are rendered.

iv) *Dividend income from listed investments*

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

v) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

2. Significant accounting policies (Continued)

u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of PRC and foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a PRC or a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that operation is included in the calculation of the profit or loss on disposal.

v) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii) the Group and the party are subject to common control;

iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

2. Significant accounting policies (Continued)

x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

The Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") that are first effective for the current accounting period.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 which is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) — Int 13	Customer Loyalty Programmes
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) — Int 18	Transfers of Assets from Customers

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

3. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

The amendments to HKAS 23 and HKFRS 2 and Interpretations HK(IFRIC) 15 and HK(IFRIC) 16 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 13). Corresponding amounts have been provided on a basis consistent with the revised segment information.

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognized as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures in note 33(f) about the fair value measurement of the Group's financial instruments, categorizing these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

- As a result of amendments to HKAS 40, Investment property, investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognized in profit or loss. As the Group does not currently have any investment property under construction, this change in policy has no impact on net assets or profit or loss for any of the periods presented.

3. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

4. Turnover

The principal activities of the Group are trading of vehicles, machinery, equipment, spare parts and provision of engineering services.

Turnover represents the sales value of goods supplied to customers, service income and commission income. The amount of each significant category of revenue recognised in turnover during the year is as follows.

	2010 **HK$'000**	2009 HK$'000
Sales of goods	**131,512**	161,679
Service income	**11,923**	25,206
Commission income	**3,876**	2,472
	147,311	189,357

5. Other revenue and other net income/(expenses)

	2010 **HK$'000**	2009 HK$'000
(a) Other revenue		
Interest income on bank deposits	**102**	621
Total interest income on financial assets not at fair value through profit or loss	**102**	621
Gross rental income from investment properties	**590**	432
Dividend income from listed securities	**2**	1
Others	**436**	86
	1,130	1,140
(b) Other net income/(expenses)		
Reversal of impairment loss on trade receivables	**267**	—
Impairment loss on goodwill *(note 17)*	**—**	(332)
Net exchange (loss)/gain	**(424)**	1,560
Net loss on disposal of property, plant and equipment	**(34)**	(43)
Net gain/(loss) on sale of trading securities	**175**	(10)
Net unrealised gain/(loss) on trading securities carried at fair value	**5,907**	(3,558)
	5,891	(2,383)

6. Profit/(loss) before taxation

Profit/(loss) before taxation is arrived at after charging/(crediting) the following:

	2010 HK$'000	2009 HK$'000
a) Finance costs		
Interest on bank borrowings wholly repayable within five years	**98**	846
Interest on bank borrowings not wholly repayable within five years	**102**	120
Finance charges on obligations under finance leases	**62**	53
Total interest expenses on financial liabilities not at fair value through profit or loss	**262**	1,019
b) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**24,369**	27,857
Contributions to defined contribution retirement plans	**884**	1,543
	25,253	29,400
c) Other items		
Amortisation of land lease premium	**24**	24
Cost of inventories *(note 20)*	**96,674**	135,029
Depreciation		
— assets held for own use under finance leases	**354**	354
— other assets	**3,050**	3,212
Increase/(decrease) in provision for warranty	**1,711**	(490)
Impairment loss on trade and other receivables	**443**	1,935
Impairment loss on goodwill	**—**	332
Write-down of inventories	**1,792**	2,211
Auditor's remuneration		
— audit services	**911**	916
— other services	**40**	40
Net gain from fair value changes of derivative financial instruments	**—**	(9)
Operating lease charges in respect of properties:		
— minimum lease payments	**2,758**	2,663
Gross rental income from investment properties	**(590)**	(432)
Direct operating expenses arising from		
— investment properties that generated rental income	**13**	—
— investment properties that did not generate rental income	**23**	27
	36	27

Notes to the Financial Statements

7. Income tax in the consolidated income statement

a) Income tax in the consolidated income statement represents:

	2010 HK$'000	2009 HK$'000
Current tax		
Hong Kong profits tax	**721**	151
PRC enterprise income tax	**2,294**	334
	3,015	485
Over-provision in respect of prior years		
Hong Kong profits tax	**–**	(296)
	3,015	189
Deferred tax		
Current year	**223**	(21)
Attributable to a change in tax rate	**–**	4
	223	(17)
Total	**3,238**	172

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) on the estimated assessable profits for the year.

Yardway Logistics Equipment (Zhuhai) Company Limited ("Yardway Zhuhai") is a foreign investment enterprise entitled to exemption from PRC Enterprise Income Tax for two years starting from the first profit-making year, followed by 50% relief for the three years thereafter. The tax exemption period had been expired. Yardway Zhuhai is subject to a preferential tax rate of 18%, 20%, 22%, 24% and 25% for the calendar years of 2008, 2009, 2010, 2011 and 2012, respectively.

Yardway Advance Power Equipment (Beijing) Co Ltd ("Yardway Beijing") is a foreign investment enterprise subject to PRC Enterprise Income Tax at 25%.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of mainland China issued Implementation Regulations of the New Law. The New Law and Implementation Regulations decrease the tax rate for Yardway Beijing from 33% to 25% from 1 January 2008 and increase the tax rate for Yardway Zhuhai on a progressive basis to 25% in the calendar year of 2012, over a period of five years.

Withholding tax (applicable to PRC subsidiaries which pays dividend, interest, rent, royalty to non-resident companies). Pursuant to the new PRC Corporate Income Tax Law which took effect from 1 January 2008, a 10% withholding tax was levied on dividends declared to foreign enterprise investors from mainland China effective 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between mainland China and the jurisdiction of the foreign enterprise investors.

7. Income tax in the consolidated income statement (Continued)

a) Income tax in the consolidated income statement represents: (Continued)

On 22 February 2008, Caishui (2008) No. 1 was promulgated by mainland China tax authorities to specify that dividends declared and remitted out of mainland China from the retained earnings as at 31 December 2007 determined based on the relevant tax laws and regulations in mainland China are exempted from the withholding tax.

Deferred tax liabilities of HK$184,000 (2009: HK$127,000) have not been recognised, as the Company controls the dividend policy of the subsidiaries in mainland China and it has been determined that it is probable that certain of the profits earned by the Group's subsidiaries in mainland China since 1 January 2008 will not be distributed in the foreseeable future.

b) Reconciliation between tax expense and accounting profit/(loss) at the applicable tax rates:

	2010 **HK$'000**	2009 HK$'000
Profit/(loss) before taxation	**6,978**	(14,655)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profit/(loss) in the tax jurisdictions concerned	**1,172**	(2,291)
Tax effect of non-deductible expenses	**1,990**	2,190
Tax effect of non-taxable income	**(108)**	(418)
Tax effect of unused tax losses not recognised	**589**	1,411
Tax effect of utilization of unused tax losses not recognised in prior years	**(405)**	(428)
Increase in opening of deferred tax liability resulting from a change in tax rate	**–**	4
Over provision in prior years	**–**	(296)
Actual tax expense	**3,238**	172

7. Income tax in the consolidated income statement (Continued)

c) The tax charge relating to each component of other comprehensive income is as follows:

	2010			2009		
	Before-tax amount HK$'000	**Tax charge HK$'000**	**Net-of-tax amount HK$'000**	Before-tax amount HK$'000	Tax charge HK$'000	Net-of-tax amount HK$'000
Exchange differences on translation of financial statements of PRC subsidiaries	**260**	**—**	**260**	448	—	448
Revaluation surplus on leasehold land and buildings	**4,053**	**(858)**	**3,195**	2,076	(1,610)	466
	4,313	**(858)**	**3,455**	2,524	(1,610)	914

8. Directors' emoluments

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

Year ended 31 March 2010

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors				
Song Xuan	–	–	–	–
Xu Xiao Yang	–	585	–	585
Xu Zhong Ping (appointed on 31/12/2009)	–	270	–	270
Zhang Fang Hong (appointed on 31/12/2009)	–	180	–	180
Li Song Xiao (resigned on 13/1/2010)	–	930	–	930
Yuan Kun (resigned on 13/1/2010)	–	220	–	220
Lu Zhao Qun (resigned on 21/4/2009)*	–	59	–	59
Non-executive director				
Ge Ze Min (appointed on 31/12/2009)	–	–	–	–
Independent non-executive directors				
Wong Kam Wah (appointed on 31/12/2009)	20	–	–	20
Zhu Nan Wen (appointed on 31/12/2009)	20	–	–	20
Gao Ning	110	–	–	110
Cui Yong (resigned on 13/1/2010)	90	–	–	90
Zhang Qing Lin (resigned on 13/1/2010)	90	–	–	90
	330	2,244	–	2,574

* Total remuneration paid to Mr. Lu Zhao Qun was HK$1,353,000 of which HK$1,294,000 was included in note 9 "individuals with highest emoluments" after his resignation of director on 21 April 2009.

8. Directors' emoluments (Continued)

Year ended 31 March 2009

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors				
Li Song Xiao	—	390	—	390
Yuan Kun	—	260	—	260
Song Xuan	—	—	—	—
Xu Xiao Yang (appointed on 21/7/2008)	—	465	—	465
Lu Zhao Qun (resigned on 21/4/2009)	—	1,175	—	1,175
Non-executive director				
Yin Jie (resigned on 2/9/2008)	—	—	—	—
Independent non-executive directors				
Gao Ning	120	—	—	120
Cui Yong	120	—	—	120
Zhang Qing Lin	120	—	—	120
	360	2,290	—	2,650

Note:

During both years, no remuneration was paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any remuneration during both years.

9. Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, one (2009: one) is the director of the Company whose emoluments is included in the disclosure in note 8 above. The emoluments of the remaining four (2009: four) individuals are as follows:

	2010 HK$'000	2009 HK$'000
Salaries and other emoluments	4,041	3,800
Discretionary bonuses	1,430	1,789
Retirement scheme contributions	21	36
	5,492*	5,625

The emoluments of the four (2009: four) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2010	2009
HK$Nil–HK$1,000,000	2	1
HK$1,000,001–HK$1,500,000	1	2
HK$1,500,001–HK$2,000,000	—	—
HK$2,000,001–HK$2,500,000	—	—
HK$2,500,001–HK$3,000,000	1	1
	4	4

* Including the remuneration paid to Mr. Lu Zhao Qun as disclosed in note 8 above.

10. Profit/(loss) attributable to owners of the Company

The consolidated profit/(loss) attributable to owners of the Company includes a loss of HK$8,398,000 (2009: loss of HK$7,739,000) which has been dealt with in the financial statements of the Company.

11. Dividends

The Board does not recommend the payment of any dividend for the year ended 31 March 2010 (2009: Nil).

12. Earnings/(loss) per share

a) Basic earnings/(loss) per share

The calculation of the basis earnings/(loss) per share is based on the profit attributable to owners of the Company of HK$3,740,000 (2009: loss of HK$14,810,000) and the weighted average number of 2,232,992,000 ordinary shares (2009: 1,582,252,000 ordinary shares) in issue during the year. The weighted average number of ordinary shares used in the calculation of basic earnings per share for the year ended 31 March 2010 has accounted for the share sub-division which was effective from 2 March 2010. The corresponding number of ordinary shares of 2009 has been retrospectively adjusted to reflect the said share sub-division.

b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share equals to the basic earnings/(loss) per share as there were no potential dilutive ordinary shares outstanding for both years presented.

13. Segment reporting

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the chief operating decision-makers ("CODM") for the purposes of resource allocation and performance assessment.

The CODM consider the business from both geographic and product perspective. Geographically, management considers the performance of the segments in Hong Kong, other parts of mainland China and Europe separately.

The Group has presented the following four reportable segments. These segments are managed separately. The aviation, metro and railway equipment segment, vehicles and spare parts segment, dredging equipment segment and provision of engineering services segment offers very different products and services.

1. Aviation, metro and railway equipment

2. Vehicles and spare parts

3. Dredging equipment

4. Provision of engineering services

The aviation, metro and railway equipment segment derives its revenue from sales of train and track maintenance equipment and airport ground support equipment.

The vehicles and spare parts segment derives its revenue from sales of coaches, trucks and spare parts of bus.

13. Segment reporting (Continued)

The dredging equipment segment derives its revenue from sales of components of dredging equipment.

The provision of engineering services segment provides warranty and maintenance services and after-sales services.

No reportable operating segment has been aggregated.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Groups's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2(x). Segment profit/(loss) represents the profit earned by/(loss) from each segment without allocation of central administration costs such as directors' salaries, investment income and finance costs. This is the measure reported to the CODM for purposes of resource allocation and performance assessment. Taxation charge/(credit) is not allocated to reportable segment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the income statement.

All assets are allocated to reportable segments other than tax recoverable, trading securities and corporate assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

All liabilities are allocated to reportable segments other than current and deferred tax liabilities and corporate liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

13. Segment reporting (Continued)

(a) Segment results, assets and liabilities (Continued)

An analysis of the Group's reportable segment is reported below.

	Aviation, metro and railway equipment		Vehicles and spare parts		Dredging equipment		Provision of engineering services		Others		Total	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Segment revenue												
Revenue from external customers	**75,066**	98,770	**36,232**	38,700	**24,258**	18,748	**11,755**	23,577	**–**	9,562	**147,311**	189,357
Reportable segment (loss)/profit before taxation	**(1,432)**	(1,333)	**(2,665)**	(5,976)	**1,815**	1,530	**1,548**	7,304	**(304)**	(264)	**(1,038)**	1,261
Interest income	**74**	412	**9**	33	**–**	3	**5**	72	**1**	4	**89**	524
Finance cost	**51**	625	**–**	–	**16**	136	**–**	–	**–**	–	**67**	761
Depreciation and amortisation	**1,571**	1,451	**12**	19	**7**	7	**204**	317	**–**	12	**1,794**	1,806
(Reversal)/write-down of inventories	**(1,136)**	1,201	**1,615**	1,010	**342**	–	**971**	–	**–**	–	**1,792**	2,211
(Reversal)/impairment loss on												
– trade receivables	**(174)**	1,487	**353**	–	**–**	–	**(3)**	448	**–**	–	**176**	1,935
– Goodwill	**–**	–	**–**	–	**–**	–	**–**	–	**–**	332	**–**	332
Reportable segment assets	**109,616**	164,409	**24,149**	7,553	**2,936**	6,184	**8,705**	15,336	**–**	1,842	**145,406**	195,324
Additions to non-current assets (other than financial assets and deferred tax assets)	**18**	498	**69**	66	**–**	–	**1**	1	**–**	–	**88**	565
Reportable segment liabilities	**37,059**	93,467	**11,916**	10,788	**1,843**	8,343	**3,052**	3,108	**–**	70	**53,870**	115,776

13. Segment reporting (Continued)

b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other items

	2010 HK$'000	2009 HK$'000
Profit/(loss)		
Reportable segments' (loss)/profit	(1,038)	1,261
Other revenue and net income/(expense)	10,923	(1,864)
Depreciation and amortisation	(1,634)	(1,784)
Finance costs	(195)	(258)
Valuation gain/(loss) on investment properties	4,040	(870)
Net surplus on revaluation of leasehold land and buildings	739	505
Unallocated head office and corporate expenses	(5,857)	(11,645)
Consolidated profit/(loss) before tax expense	6,978	(14,655)

	2010 HK$'000	2009 HK$'000
Assets		
Reportable segments' assets	145,406	195,324
Unallocated		
— tax recoverable	105	105
— deferred tax	—	242
— trading securities	32,203	26,385
— cash and cash equivalents	69,385	91,302
— corporate assets	13,627	1,220
Consolidated total assets	260,726	314,578

13. Segment reporting (Continued)

b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other items (Continued)

	2010 HK$'000	2009 HK$'000
Liabilities		
Reportable segments' liabilities	53,870	115,776
Unallocated		
— current tax liabilities	2,358	256
— deferred tax liabilities	3,299	2,450
— bank loans and overdrafts	3,883	5,500
— obligations under finance leases	—	462
— corporate liabilities	2,212	2,225
Consolidated total liabilities	65,622	126,669

Other items	Aviation, metro and railway equipment		Vehicles and spare parts		Dredging equipment		Provision of engineering services		Others		Unallocated		Consolidated	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Interest income	74	412	9	33	–	3	5	72	1	4	13	97	102	621
Finance cost	51	625	–	–	16	136	–	–	–	–	195	258	262	1,019
Depreciation and amortisation	1,571	1,451	12	19	7	7	204	317	–	12	1,634	1,784	3,428	3,590
Valuation gain/(loss) on investment properties	–	–	–	–	–	–	–	–	–	–	4,040	(870)	4,040	(870)
Net surplus on revaluation of leasehold land and buildings	–	–	–	–	–	–	–	–	–	–	739	505	739	505
Additions to non-current assets (other than financial assets and deferred tax assets)	18	498	69	66	–	–	1	1	–	–	1,140	1,048	1,228	1,613

13. Segment reporting (Continued)

c) Revenue from major product and services

The following is an analysis of the Group's revenue from its major products and services:

	2010 **HK$'000**	2009 HK$'000
Railway equipment	**71,191**	96,974
Dredging equipment	**24,258**	18,747
Vehicles parts	**22,483**	42,633
Coaches	**13,690**	4,954
Warranty maintenance and after-sales services	**15,689**	26,049
	147,311	189,357

d) Geographical information

The following is an analysis of geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets. The geographical location of customers is refers to the location at which the services were provided or the goods delivered. The Group's non-current assets include fixed assets, intangible assets and goodwill. The geographical location of property, plant and equipment is based on the physical location of the asset under consideration. In the case of intangible assets and goodwill, it is based on the location of operation to which these intangibles are allocated.

	Revenues from external customers		**Non-current assets**	
	2010 **HK$'000**	2009 HK$'000	**2010** **HK$'000**	2009 HK$'000
Hong Kong (place of domicile)	**29,759**	34,673	**40,935**	33,011
Mainland China	**91,721**	135,654	**20,308**	21,587
Europe	**25,831**	18,789	**—**	—
Others	**—**	241	**—**	—
	147,311	189,357	**61,243**	54,598

13. Segment reporting (Continued)

e) Information about major customers

Revenues from customers contributing 10% or more of the total sales of the Group are as follows:

	2010 **HK$'000**	2009 HK$'000
Customer A — revenue from railway equipment — PRC	**28,125**	—
Customer B — revenue from dredging equipment — Europe	**25,737**	18,721
Customer C — revenue from metro equipment — PRC	**25,492**	13,819
Customer D — revenue from railway equipment — PRC	**—**	11,277
Customer E — revenue from bus parts — PRC	**14,371**	23,474
Customer F — revenue from vehicles equipment — Hong Kong	**12,251**	—

14. Interest in leasehold land held for own use under operating leases

The Group

	HK$'000
Cost	
At 1 April 2008	1,189
Exchange adjustments	22
At 31 March 2009	1,211
At 1 April 2009	1,211
Exchange adjustments	11
At 31 March 2010	1,222
Accumulated amortisation	
At 1 April 2008	95
Exchange adjustments	2
Charge for the year	24
At 31 March 2009	121
At 1 April 2009	121
Exchange adjustments	2
Charge for the year	24
At 31 March 2010	147
Carrying amount	
At 31 March 2010	1,075
At 31 March 2009	1,090

The interest in leasehold land held for own use under operating leases represents prepaid operating lease payments in mainland China under medium-term lease which were amortised over the lease term of 50 years on a straight-line basis.

15. Property, plant and equipment

The Group

	Leasehold land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation					
At 1 April 2008	33,550	16,830	3,194	5,223	58,797
Exchange adjustments	159	113	18	96	386
Additions	—	1,278	335	—	1,613
Transfer from construction in progress	5,319	—	—	(5,319)	—
Disposals	(720)	(4,036)	—	—	(4,756)
Surplus on revaluation	2,581	—	—	—	2,581
Less: Elimination of accumulated depreciation	(749)	—	—	—	(749)
At 31 March 2009	40,140	14,185	3,547	—	57,872
Representing					
Cost	—	14,185	3,547	—	17,732
Valuation — 2009	40,140	—	—	—	40,140
	40,140	14,185	3,547	—	57,872
Cost or valuation					
At 1 April 2009	40,140	14,185	3,547	—	57,872
Exchange adjustments	148	59	9	—	216
Additions	—	1,227	1	—	1,228
Transfer to investment properties *(note 16)*	(18,700)	—	—	—	(18,700)
Disposals	—	(2,036)	(388)	—	(2,424)
Surplus on revaluation	4,792	—	—	—	4,792
Less: Elimination of accumulated depreciation	(723)	—	—	—	(723)
At 31 March 2010	25,657	13,435	3,169	—	42,261
Representing					
Cost	—	13,435	3,169	—	16,604
Valuation — 2010	25,657	—	—	—	25,657
	25,657	13,435	3,169	—	42,261

15. Property, plant and equipment (Continued)

The Group (Continued)

	Leasehold land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Accumulated depreciation					
At 1 April 2008	—	9,565	1,588	—	11,153
Exchange adjustments	—	(2)	6	—	4
Charge for the year	762	2,096	708	—	3,566
Written back on disposal	(13)	(3,707)	—	—	(3,720)
Less: Elimination of accumulated depreciation	(749)	—	—	—	(749)
At 31 March 2009	—	7,952	2,302	—	10,254
Accumulated depreciation					
At 1 April 2009	—	7,952	2,302	—	10,254
Exchange adjustments	—	33	7	—	40
Charge for the year	723	2,017	664	—	3,404
Written back on disposal	—	(1,864)	(388)	—	(2,252)
Less: Elimination of accumulated depreciation	(723)	—	—	—	(723)
At 31 March 2010	—	8,138	2,585	—	10,723
Carrying amount					
At 31 March 2010	25,657	5,297	584	—	31,538
At 31 March 2009	40,140	6,233	1,245	—	47,618

15. Property, plant and equipment (Continued)

The Company

	Furniture, fixtures and equipment HK$'000
Cost	
At 1 April 2008 and 31 March 2009	116
At 1 April 2009	116
Additions	996
Disposals	(57)
At 31 March 2010	1,055
Accumulated depreciation	
At 1 April 2008	12
Charge for the year	23
At 31 March 2009	35
At 1 April 2009	35
Charge for the year	24
Written back on disposals	(28)
At 31 March 2010	31
Carrying amount	
At 31 March 2010	1,024
At 31 March 2009	81

a) The Group's leasehold land and buildings were revalued as at 31 March 2010 on an open market value basis calculated by reference to (i) comparable market transactions in the relevant markets and/or (ii) a depreciated replacement cost basis calculated based on the current cost of replacement of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The valuations were carried out by an independent firm of surveyors, RHL Appraisal Limited, who has among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The revaluation surplus of HK$739,000 (2009: HK$505,000) for the Group's leasehold land and buildings has been credited to the consolidated income statement during the year. The revaluation surplus of HK$4,053,000 (2009: HK$2,076,000) for the Group's leasehold land and buildings has been transferred to the revaluation reserve (note 32), net of deferred tax (note 27(b)).

The carrying amount of the leasehold land and buildings of the Group at 31 March 2010 would have been HK$17,061,000 (2009: HK25,029,000) had they been carried at cost less accumulated depreciation.

15. Property, plant and equipment (Continued)

b) An analysis of carrying amount of leasehold land and buildings

	2010 **HK$'000**	2009 HK$'000
In Hong Kong		
— medium-term leases	**–**	16,200
In mainland China		
— long-term leases	**9,320**	7,580
— medium-term leases	**16,337**	16,360
	25,657	40,140

c) Property, plant and equipment

In addition to the leasehold land and buildings classified as being held under a finance lease in note (b) above, the Group leases certain fixed assets under finance leases expiring from one to three years. At the end of the lease term the Group has an option to purchase the fixed assets at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

At the end of reporting period, the carrying amount of property, plant and equipment held under finance leases of the Group was Nil (2009: HK$620,000).

The obligations under finance leases are disclosed in note 26.

16. Investment properties

	The Group	
	2010	2009
	HK$'000	HK$'000
At beginning of the year	**5,890**	6,760
Transfer from leasehold land and buildings *(note 15)*	**18,700**	—
Gain/(loss) on fair value adjustment	**4,040**	(870)
At end of the year	**28,630**	5,890

a) The Group's investment properties were revalued as at 31 March 2010 on an open market value basis calculated by reference to comparable market transactions in the relevant markets. The valuations were carried out by an independent firm of surveyors, RHL Appraisal Limited, who has among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The valuation gain of HK$4,040,000 (2009: loss of HK$870,000) for the Group's investment properties has been credited/charged to the consolidated income statement.

b) An analysis of the carrying amount of the investment properties is as follows:

	2010	2009
	HK$'000	HK$'000
In Hong Kong		
— medium-term leases	**20,000**	—
In mainland China		
— long-term leases	**4,310**	3,230
— medium-term leases	**4,320**	2,660
	28,360	5,890

c) **Investment properties leased out under operating leases**

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The gross carrying amounts of investment properties of the Group held for use in operating leases were HK$28,630,000 (2009: HK$5,890,000).

All the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

16. Investment properties (Continued)

c) Investment properties leased out under operating leases (Continued)

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2010 **HK$'000**	2009 HK$'000
Within 1 year	**710**	324
After 1 year but within 5 years	**507**	—
	1,217	324

17. Goodwill

	The Group	
	2010 **HK$'000**	2009 HK$'000
Cost		
At beginning of the year	**332**	—
Arising on acquisition of minority interest of a subsidiary during the year	**—**	332
At end of the year	**332**	332
Accumulated impairment losses		
At beginning of the year	**332**	—
Impairment loss	**—**	332
At end of the year	**332**	332
Carrying amount		
At end of the year	**—**	—

On 22 April 2008, the Group acquired the remaining 25% equity interest from a minority shareholder for a consideration of HK$900,000. Goodwill was arising from the management's expectation of future profits of the subsidiary.

Goodwill is allocated to the Group's cash-generating unit ("CGU") identified according to others segment.

17. Goodwill (Continued)

Impairment tests for cash-generating units containing goodwill

The recoverable amount of CGU was determined based on value-in-use calculations. These calculations used cash flow projections based on financial budgets approved by management covering a five year period. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. Discount rate of 15% has been used for the value-in-use calculations.

Management determined the budgeted operating profit margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

Based on the impairment test performed, the recoverable amount of the CGU was minimal. In addition, due to the changing market condition, the difficulty of the business environment and the foreseeable loss in the foreseeable future, the directors considered full impairment loss shall be recognised in the year ended 31 March 2009.

18. Interest in subsidiaries

	The Company	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**59,263**	59,263
Amounts due from subsidiaries	**108,238**	31,207
	167,501	90,470

Notes:

a) Amounts due from subsidiaries are unsecured, interest-free and are not expected to be recovered within one year.

b) The following list only contains the particulars of the subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

18. Interest in subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and fully paid share capital/ capital contributions	Proportion of ownership interest Direct	Proportion of ownership interest Indirect	Principal activity
Yardway Development Limited	British Virgin Islands ("BVI")/Hong Kong	US$10,000	100%	—	Investment holding
Yardway Limited	Hong Kong	HK$10,110 (divided into 10 ordinary shares and 10,100 non-voting deferred shares of HK$1 each *(note (i))*	—	100%	Trading of vehicles, machinery and parts and provision of engineering services
Yardway Motors Limited	Hong Kong	HK$10,000	—	100%	Trading of motor vehicles and spare parts and provision of services
Yardway Logistics Equipment (Zhuhai) Company Limited ("Yardway Zhuhai") 啟帆物流設備(珠海)有限公司	Mainland China *(note (ii))*	HK$10,000,000	—	100%	Trading of transportation and logistics related equipment
Yardway Enterprise Limited	Hong Kong	HK$2,000,000	—	100%	Design and installation of production line and the provision of related after sale service
Yardway Advance Power Equipment (Beijing) Co Ltd ("Yardway Beijing") 啟帆未來動力設備(北京)有限公司	Mainland China *(note (ii))*	RMB3,000,000	—	100%	Trading of spare parts and provision of services
Joy Win Ltd	BVI	US$100	—	100%	Investment holding
Sinotruck Limited	Hong Kong	HK$2	—	100%	Trading of vehicles and spare parts
Yardway Dredging Equipment Limited	Hong Kong	HK$10,000	—	100%	Trading and manufacturing of dredging equipment, components and provision for services in Hong Kong
Golden Leo Development Limited	Hong Kong	HK$1	100%	—	Trading of securities
Rich Channel International Limited	Hong Kong	HK$1	100%	—	Investment holding
Well Nation Holdings Limited	BVI	US$1	100%	—	Investment holding
Beijing Xinchuang Technology Development Co., Ltd. ("Beijing Xinchuang") 北京興創科技發展有限公司	Mainland China *(note (iii))*	HK$30,000,000	—	100%	Inactive
Beijing Huabaili Energy Saving Technique Development Co., Ltd. ("Beijing Huabaili") 北京華佰利節能技術開發有限公司	Mainland China *(note (iv))*	HK$2,500,000	—	100%	Inactive

18. Interest in subsidiaries (Continued)

Notes:

i) In accordance with the articles of association of Yardway Limited, holders of non-voting deferred shares are entitled to share profit of Yardway Limited when the profit exceeds HK$1,000,000 million in any financial year. On a return of assets on winding up or otherwise the assets of Yardway Limited to be returned shall be distributed as regards the first HK$5,000,000,000 thereof among the holders of ordinary shares and one half of the balance of such assets shall belong to and be distributed among the holders of the non-voting deferred shares and the other half thereof to and among the holders of the ordinary shares.

ii) Yardway Zhuhai and Yardway Beijing are wholly-foreign-owned enterprises.

iii) Beijing Xinchuang, a wholly-foreign owned enterprise, was newly formed on 25 September 2009 with registered capital of HK$10,000,000. The registered capital was increased to HK$90,000,000 of which HK$30,000,000 has been paid up during the year. According to the articles of association, the remaining registered capital of HK$60,000,000 should be paid on or before 27 May 2012.

iv) Beijing Huabaili, a wholly-foreign owned enterprise, was newly formed on 23 October 2009 with registered capital of HK$12,500,000 of which HK$2,500,000 has been paid up during the year. According to the articles of association, the remaining registered capital of HK$10,000,000 should be paid on or before 22 October 2011.

19. Trading securities

	The Group	
	2010	2009
	HK$'000	HK$'000
Listed equity securities in Hong Kong, at fair value	**32,203**	26,385

The fair value of listed equity securities is based on their quoted prices at the end of the reporting period.

20. Inventories

	The Group	
	2010	2009
	HK$'000	HK$'000
Work-in-progress	**16**	718
Finished goods	**8,180**	21,596
	8,196	22,314

The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount of inventories sold	**94,882**	132,818
Write-down of inventories	**1,792**	2,211
	96,674	135,029

21. Trade and other receivables

		The Group		The Company	
	Note	**2010** **HK$'000**	2009 HK$'000	**2010** **HK$'000**	2009 HK$'000
Trade receivables	(a)	**29,739**	50,474	**—**	—
Retentions receivable	(b)	**12,582**	12,319	**—**	—
Other receivables		**10,393**	1,510	**—**	—
Loans and receivables		**52,714**	64,303	**—**	—
Derivative financial instruments:					
— foreign currency forward contracts	22	**—**	40	**—**	—
Prepayments and deposits		**3,805**	15,644	**1,366**	259
		56,519	79,987	**1,366**	259

All of the trade and other receivables apart from certain retention receivables are expected to be recovered within one year.

a) Trade receivables

i) Ageing analysis

Trade receivables are net of allowance for bad and doubtful debts of HK$2,612,000 (2009: HK$3,074,000) with the following ageing analysis as of the end of the reporting period:

	The Group	
	2010 **HK$'000**	2009 HK$'000
Current	**20,616**	23,046
1 to 3 months past due	**6,112**	11,325
More than 3 months but less than 12 months past due	**2,952**	11,430
More than 12 months past due	**59**	4,673
	29,739	50,474

Trade receivables are due in accordance with contract terms or within 2 months from the date of billing. Further detail of the Group's credit policy is set out in note 33(a).

21. Trade and other receivables (Continued)

a) Trade receivables (Continued)

ii) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the debts are directly impaired as an impairment loss (see note 2(j)).

Movements in the allowance for doubtful debts

	The Group	
	2010	2009
	HK$'000	HK$'000
At beginning of the year	**3,074**	1,139
Reversal of impairment	**(267)**	—
Impairment loss recognised *(note)*	**443**	1,935
Uncollectible amount written off	**(648)**	—
Exchange difference	**10**	—
At end of the year	**2,612**	3,074

Note:

As at 31 March 2010, trade receivables of the Group amounting to HK$2,612,000 (2009: HK$3,074,000) were individually determined to be impaired and impairment loss of the full amount had been recognised. These individually impaired receivables were outstanding for over one year as at the end of the reporting period or were due from companies with financial difficulties. The Group does not hold any collateral over these balances.

iii) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**20,616**	23,046
1 to 3 months past due	**6,112**	11,325
3 to 12 months past due	**2,952**	11,430
More than 1 year past due	**59**	4,673
	29,739	50,474

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

21. Trade and other receivables (Continued)

a) Trade receivables (Continued)

iii) Trade receivables that are not impaired (Continued)

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

b) Retentions receivable

Retentions receivable are amounts which are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts. The amount of retentions expected to be recovered after more than one year is HK$9,634,000 (2009: HK$7,810,000).

22. Derivative financial instruments

Foreign currency forward contracts (not under hedge accounting)

As at 31 March 2010, the Group had no outstanding foreign currency forward contracts. The major terms of the foreign currency forward contracts as at 31 March 2009 were as follows:

Notional amount	Currency conversion
3 contracts to buy GBP 491,000	GBP1: HK$10.840 to HK$11.332
1 contract to buy EURO32,000	EURO1: HK$9.89

The above contracts will mature within one to three months from the end of the reporting period.

Derivative financial instruments that are denominated in currencies other than the functional currencies of the relevant group entities are set out below.

22. Derivative financial instruments (Continued)

	The Group	
	2010	2009
	HK$'000	HK$'000
Derivative financial assets		
GBP	**–**	28
EURO	**–**	12
	–	40
Derivative financial liabilities		
GBP	**–**	64

The foreign currency forward contracts were measured at fair value at the end of the reporting period. Its fair values were determined based on market prices quoted by banks at the end of the reporting period. At 31 March 2009, the foreign currency exchange contracts were mainly used for managing currency exposure of bills payable denominated in EURO and GBP.

23. Pledged bank deposits and cash and cash equivalents

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Pledged bank deposits	**381**	11,717	**–**	–
Cash and bank balances	**102,079**	119,230	**2,672**	91,302
	102,460	130,947	**2,672**	91,302
Less: Pledged bank deposits	**(381)**	(11,717)	**–**	–
Cash and cash equivalents in the consolidated statement of financial position	**102,079**	119,230	**2,672**	91,302
Bank overdrafts *(note 25)*	**–**	(161)		
Cash and cash equivalents in the consolidated statement of cash flows	**102,079**	119,069		

23. Pledged bank deposits and cash and cash equivalents (Continued)

At 31 March 2010, the bank deposits and cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$7,246,000 (2009: HK$18,827,000). The RMB is not freely convertible into other currencies. However, under mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The pledged bank deposits of HK$381,000 (2009: HK$1,493,000) carry interest at market rate of 0.36% (2009: 0.36%) per annum. At 31 March 2009, the remaining pledged bank deposits of HK$10,224,000 carry fixed interest rates which range from 0.78% to 3.6% per annum. Bank balances carry interest at market rates which range from 0.0001% to 0.36% (2009: 0.0001% to 0.05%) per annum. The bank balances and bank deposits are deposited with creditworthy banks with no recent history of default.

24. Trade and other payables

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and bills payables	**34,648**	78,091	**—**	—
Other payables and accruals	**13,156**	11,558	**870**	816
Amount due to a related company	**374**	—	**—**	—
Financial liabilities measured at amortised cost	**48,178**	89,649	**870**	816
Derivative financial instruments:				
— foreign currency forward contracts *(note 22)*	**—**	64	**—**	—
Sales deposits received	**5,501**	26,982	**—**	—
	53,679	116,695	**870**	816

All trade and other payables apart from certain retentions payable are expected to be settled within one year.

Retentions payable are amounts which are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts. The amount of retentions expected to be settled after more than one year is Nil (2009: HK$669,000).

The amount due to a related company is unsecured, interest free and repayable on demand.

24. Trade and other payables (Continued)

The following is an age analysis of the trade and bills payables as at the end of the reporting period.

	The Group	
	2010	2009
	HK$'000	HK$'000
Due within 1 month or on demand	**21,710**	35,667
Due after 1 month but within 3 months	**2,831**	5,093
Due after 3 months but within 6 months	**7**	9,192
Due after 6 months but within 1 year	**3,917**	6,887
Due after 1 year	**349**	—
	28,814	56,839
Bills payable	**2,207**	17,380
Retentions payable	**3,627**	3,872
	34,648	78,091

25. Bank loans and overdrafts

	The Group	
	2010	2009
	HK$'000	HK$'000
Bank loans		
— secured	**3,883**	4,209
— unsecured	**—**	1,744
	3,883	5,953
Bank overdrafts secured *(note 23)*	**—**	161
	3,883	6,114

25. Bank loans and overdrafts (Continued)

At the end of the reporting period, the bank loans and overdrafts were repayable as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Within 1 year or on demand	**333**	2,231
After 1 year but within 2 years	**342**	333
After 2 years but within 5 years	**1,078**	1,052
After 5 years	**2,130**	2,498
	3,550	3,883
	3,883	6,114

The interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

The effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings is 2.5% (2009: ranged from 2.28% to 6.25%) per annum.

As at 31 March 2010, the secured bank loans were secured by (i) mortgages over the Group's investment properties with an aggregate carrying value of HK$20,000,000 (2009: leasehold land and buildings of HK$16,200,000); (ii) pledge over bank deposits of HK$381,000 (2009: HK$11,717,000) and (iii) corporate guarantees given by the Company. Such banking facilities amounted to HK$32,383,000 (2009: HK$111,165,000). The facilities were utilised to the extent of HK$3,883,000 as at 31 March 2010 (2009: HK$4,370,000).

26. Obligations under finance leases

At the end of the reporting period, the Group had obligations under finance leases repayable as follows:

	The Group					
	2010			2009		
	Present value of the minimum lease payments HK$'000	**Interest expense relating to future periods HK$'000**	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Interest expense relating to future periods HK$'000	Total minimum lease payments HK$'000
Within 1 year	**–**	**–**	**–**	396	53	449
After 1 year but within 2 years	**–**	**–**	**–**	66	9	75
	–	**–**	**–**	462	62	524

27. Income tax in the consolidated statement of financial position

a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2010 HK$'000	2009 HK$'000
Provision for Hong Kong profits tax for the year	**608**	145
Balance of tax recoverable relating to prior years	**(105)**	(105)
	503	40
PRC enterprise income tax	**1,750**	111
	2,253	151
Representing:		
Tax recoverable	**(105)**	(105)
Tax payable	**2,358**	256

27. Income tax in the consolidated statement of financial position (Continued)

b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year were as follows:

	Revaluation of investment properties HK$'000	Depreciation allowances in excess of related depreciation HK$'000	Revaluation of other properties HK$'000	Tax losses HK$'000	Other HK$'000	Total HK$'000
Deferred tax arising from:						
At 1 April 2008	32	869	1,201	(1,434)	(56)	612
Exchange adjustments	—	—	7	(3)	(1)	3
Effect of a change in tax rate						
— charged/(credited) to profit or loss	—	(9)	—	13	—	4
— credited to reserve	—	—	(8)	—	—	(8)
Charged/(credited) to profit or loss	(32)	(747)	—	758	—	(21)
Charged to reserve	—	—	1,618	—	—	1,618
At 31 March 2009	—	113	2,818	(666)	(57)	2,208
At 1 April 2009	—	113	2,818	(666)	(57)	2,208
Exchange adjustments	—	—	10	—	—	10
Charged/(credited) to profit or loss	247	(44)	—	(37)	57	223
Charged to reserve	—	—	858	—	—	858
At 31 March 2010	247	69	3,686	(703)	—	3,299

27. Income tax in the consolidated statement of financial position (Continued)

b) Deferred tax assets and liabilities recognised: (Continued)

The Group (Continued)

	The Group	
	2010	2009
	HK$'000	HK$'000
Net deferred tax assets recognised on the consolidated statement of financial position	**–**	(242)
Net deferred tax liabilities recognised on the consolidated statement of financial position	**3,299**	2,450
	3,299	2,208

c) Deferred tax assets not recognised:

At the end of the reporting period, the Group has tax losses of HK$31,921,000 (2009: HK$39,646,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available for the companies in which losses arose. The tax losses do not expire under the current tax legislation. The Group has tax losses of HK$1,074,000 available for offset against future profits that may be carried forward for five years for PRC enterprise income tax purpose.

28. Provision for warranty

	The Group	
	2010	2009
	HK$'000	HK$'000
At beginning of the year	**692**	1,182
Additional provisions made	**1,731**	94
Provision utilised	**(20)**	(584)
At end of the year	**2,403**	692
Less: amount included under "current liabilities"	**(1,874)**	(692)
Non-current liabilities	**529**	–

The Group will rectify any product defects arising within one to three years of the delivery of railway and metro maintenance equipments and vehicles to customers. The provision is therefore made for the best estimate of the expected settlement. The amount of provision is estimated by directors who take into account the Group's recent claim experience and is only made where a warranty claim is probable from historical warranty date associated with similar products.

29. Financial guarantee liability

	The Company	
	2010	2009
	HK$'000	HK$'000
Financial guarantee contracts		
Carrying amount		
At beginning of the year	**1,260**	—
Fair value of financial guarantee contracts issued	**673**	1,538
Amortisation for the year	**(1,878)**	(278)
At end of the year	**55**	1,260

Based on the valuation performed by an independent firm of valuer, the directors considered that the fair value of the financial guarantee contracts was approximately HK$673,000 (2009: HK$1,538,000) at the date of issuance of the financial guarantee contracts. The Company recognised financial guarantee income of HK$1,878,000 (2009: HK$278,000) during the year.

As at 31 March 2010, the Company has undertaken to guarantee certain banking facilities to the extent of HK$21,958,000 (2009: HK$105,320,000) granted to certain subsidiaries of which HK$10,493,000 (2009: 31,903,000) have been utilised at the end of the reporting period. The maximum guarantee amount borne by the Company was HK$21,958,000 (2009: HK$105,320,000). The directors do not consider it probable that a claim will be made against the Company.

30. Share option scheme

The Company had a share option scheme which was adopted on 28 March 2002, whereby the directors of the Company are authorised, at their discretion, to invite eligible participants, to take up options at a nominal consideration to subscribe for shares of the Company. The purpose of the share option scheme is to enable the Group to grant options to the eligible participants including employees, executive and non-executive directors, suppliers and customers and shareholders of any members of the Group and any persons or entities that provided research, development or other technical support to the Group or any other group or classes of participants determined by the directors as incentive or rewards for their contribution to the Group. The total number of shares which may be issued upon exercise of all options to be granted under the scheme shall not in aggregate exceed 30% to the total number of shares of the Company from time to time.

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of offer. The options vest in four equal instalments with the first instalment vesting from the date of grant. The second, third and fourth instalments vest from one, two and three years after the date of grant respectively. The options are exercisable after the vesting date but within a period of five years from the date of grant. Each option gives the holder the right to subscribe for one ordinary share in the Company. On 20 September 2007, share offer was made to all the holders of the shares, 10,424,000 shares under the share offer were accepted by the offeror parties. Taking into account the 10,424,000 shares accepted under the share offer and the 133,732,000 shares already held by the offeror parties, the offer parties in aggregate held 144,156,000 shares, represent 51.5% of the issued share capital of the Company. Accordingly, the condition of the offers has been fulfilled and the offers have become unconditional. The share offer was closed on 25 October 2007.

According to the share option scheme adopted on 28 March 2002, as the share offer made on 20 September 2007 to all the holders of the shares became unconditional, the option holders were, notwithstanding any other terms on which his options were granted, be entitled to exercise the option (to the extent not already exercised) to its full extent at any time thereafter and up to the close of the offer, on 25 October 2007.

At the end of the reporting date, no share option had been granted under the share option scheme since its adoption (2009: Nil).

31. Share capital

a) Authorised and issued share capital

	Number of ordinary shares of HK$0.l per share '000	Number of ordinary shares of HK$0.05 per share '000	Number of ordinary shares of HK$0.025 per share '000	HK$'000
Authorised:				
At 1 April 2008	2,000,000	—	—	200,000
Share sub-division *(note ii)*	(2,000,000)	4,000,000	—	—
At 31 March 2009 and 1 April 2009	—	4,000,000	—	200,000
Share sub-division *(note (iii))*	—	(4,000,000)	8,000,000	—
At 31 March 2010	—	—	8,000,000	200,000
Issued and fully paid:				
At 1 April 2008	288,248	—	—	28,825
Issue of new shares *(note (i))*	270,000	—	—	27,000
Effect of share sub-division *(note (ii))*	(558,248)	1,116,496	—	—
At 31 March 2009 and 1 April 2009	—	1,116,496	—	55,825
Effect of share sub-division *(note (iii))*	—	(1,116,496)	2,232,992	—
At 31 March 2010	—	—	2,232,992	55,825

Notes:

(i) On 28 August 2008, the Company entered into a subscription agreement with 5 subscribers (3 of them are existing directors and one of them is ex-director who resigned on 21 April 2009) pursuant to which the subscribers agreed to subscribe for and the Company agreed to issue and allot 270,000,000 shares at the subscription price of HK$0.3 per share. The net proceeds of HK$81 million from the issue of new shares would be used for business expansion and general working capital of the Group. The shares were allotted to the five subscribers on 5 November 2008 to 7 November 2008.

(ii) Pursuant to the approval in the extraordinary general meeting held on 13 February 2009, the issued and unissued shares of HK$0.10 each be subdivided into two subdivided shares of HK$0.05 each. Upon the subdivision becoming effective, the authorised share capital of the Company of HK$200,000,000 was divided into 4,000,000,000 subdivided shares, of which, 1,116,496,000 subdivided shares were issued and fully paid.

(iii) Pursuant to the approval in the extraordinary general meeting held on 1 March 2010, the issued and unissued shares of HK$0.05 each be subdivided into two subdivided shares of HK$0.025 each. Upon the subdivision becoming effective on 2 March 2010, the authorised share capital of the Company of HK$200,000,000 was divided into 8,000,000,000 subdivided shares, of which, 2,232,992,000 subdivided shares were issued and fully paid.

32. Reserves

a) The Group

	Note	Share premium HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Revaluation reserve — land and buildings HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
		Attributable to owners of the Company								
At 1 April 2008		5,131	(180)	2,033	12,332	1,944	71,018	92,278	585	92,863
Comprehensive income										
Exchange differences on translation of the financial statements of PRC subsidiaries		—	—	448	—	—	—	448	—	448
Revaluation surplus, net of deferred tax		—	—	—	466	—	—	466	—	466
Disposal of leasehold land and buildings		—	—	—	(1,627)	—	1,627	—	—	—
Loss for the year		—	—	—	—	—	(14,810)	(14,810)	(17)	(14,827)
Total comprehensive income		—	—	448	(1,161)	—	(13,183)	(13,896)	(17)	(13,913)
Transactions with owners										
Issue of shares	31(a)(i)	54,000	—	—	—	—	—	53,702	—	53,702
Shares issued expenses		(298)	—	—	—	—	—	(298)	—	(298)
Acquisition of minority interests		—	—	—	—	—	—	—	(568)	(568)
Transfer to other reserves		—	—	—	—	350	(350)	—	—	—
Total transactions with owners		53,702	—	—	—	350	(350)	53,702	(568)	53,134
At 31 March 2009		58,833	(180)	2,481	11,171	2,294	57,485	132,084	—	132,084
At 1 April 2009		58,833	(180)	2,481	11,171	2,294	57,485	132,084	—	132,084
Comprehensive income										
Exchange differences on translation of the financial statements of PRC subsidiaries		—	—	260	—	—	—	260	—	260
Revaluation surplus, net of deferred tax		—	—	—	3,195	—	—	3,195	—	3,195
Profit for the year		—	—	—	—	—	3,740	3,740	—	3,740
Total comprehensive income		—	—	260	3,195	—	3,740	7,195	—	7,195
Transactions with owners										
Transfer to other reserves		—	—	—	—	276	(276)	—	—	—
At 31 March 2010		58,833	(180)	2,741	14,366	2,570	60,949	139,279	—	139,279

32. Reserves (Continued)

b) The Company

	Note	**Share premium** HK$'000	**Contributed surplus** HK$'000	**Retained profits/ (accumulated losses)** HK$'000	**Total** HK$'000
At 1 April 2008		5,131	59,063	14,054	78,248
Total comprehensive income					
Loss for the year		—	—	(7,739)	(7,739)
Transactions with owners					
Issue of shares	31(a)(i)	54,000	—	—	54,000
Shares issued expenses		(298)	—	—	(298)
Total transactions with owners		53,702	—	—	53,702
At 31 March 2009		58,833	59,063	6,315	124,211
At 1 April 2009		58,833	59,063	6,315	124,211
Total comprehensive income					
Loss for the year		—	—	(8,398)	(8,398)
At 31 March 2010		58,833	59,063	(2,083)	115,813

32. Reserves (Continued)

Nature and purpose of reserves

(i) Share premium and contributed surplus

Under the Companies Law (Revised) of the Cayman Islands, the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

The contributed surplus of the Company arose from the difference between the consolidated net assets of the Group's subsidiaries acquired and the nominal value of the Company's ordinary shares issued pursuant to the Group reorganisation in 2002.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(u).

(iii) Revaluation reserve

The revaluation reserves have been set up and are dealt with in accordance with the accounting policies adopted for leasehold land and buildings in note 2(h). The revaluation reserve is not distributable to shareholders.

(iv) Other reserves

Subsidiaries of the Group in mainland China, which are wholly foreign-owned enterprises, follow the accounting principles and relevant financial regulations of mainland China applicable to wholly foreign-owned enterprises ("PRC GAAP — WFOE"), in the preparation of their accounting records and financial statements. Pursuant to the accounting regulations for business enterprises, the subsidiaries are required to appropriate 10% of the profit arrived at in accordance with PRC GAAP — WFOE for each year to a statutory reserve. The profit arrived at must be used initially to set off against any accumulated losses. The appropriations to statutory reserve, after offsetting against any accumulated losses, must be made before the distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends, but may be used to set off losses or be converted into paid-in capital.

32. Reserves (Continued)

Nature and purpose of reserves (Continued)

(v) *Distributability of reserves*

At 31 March 2010, the aggregate amount of reserves available for distribution to owners of the Company was HK$115,813,000 (2009: HK$124,211,000).

(vi) *Capital risk management*

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes bank borrowings and other financial liabilities) less bank deposits and cash. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During the year ended 31 March 2010, the Group's strategy, which was unchanged from 2009, was to maintain the net debt-to-adjusted capital ratio as low as feasible. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. As at 31 March 2010 and 2009, the Group had a net cash position.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

33. Financial risk management and fair values

The Group has exposure to credit risk, liquidity risk, currency risk, interest rate risk and equity price risk from its use of financial instruments. This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and the Group's credit risk is primarily attributable to the trade and other receivables and deposits with financial institutions. Management has a credit policy in a place and the exposures to these credit risks are monitored on an ongoing basis.

i) Trade and other receivables

The management has established a credit policy under which credit evaluations are performed on all customers requiring credit. Trade receivables are due depend on contract terms or within 2 months from the date of billing. Debtors with balances that are more than 3 months are requested to settle all outstanding balance before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of the reporting period, the Group has a certain concentration of credit risk as 25% (2009: 28%) and 71% (2009: 80%) of the total trade related receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, in the consolidated statement of financial position after deducting any impairment allowance. Except for financial guarantees given by the Company as set out in note 29, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of this financial guarantee at the Company's statement of financial position is disclosed in note 29.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

ii) Deposits with financial institutions

The Group limits its exposure to credit risk by placing deposits with financial institutions that meet the established credit rating or other criteria. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

As at 31 March 2010, the Group has certain concentration of credit risk as 20% (2009: 10%) of total cash and cash equivalents, bank deposits with original maturities over three months and financial assets designated at fair value were deposited at one financial institution in mainland China with high credit ratings.

33. Financial risk management and fair values (Continued)

b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a significant source of liquidity. At 31 March 2010, the Group has available un-utilized banking facilities of approximately HK$11,465,000 (2009: HK$73,417,000), details of which are disclosed in notes 36.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay.

The Group

	2010					
	Within 1 year or on demand HK$'000	**More than 1 year but less than 2 years HK$'000**	**More than 2 years but less than 5 years HK$'000**	**After 5 years HK$'000**	**Total contractual undiscounted cash flow HK$'000**	**Carrying amount HK$'000**
Trade and other payables	**53,679**	**–**	**–**	**–**	**53,679**	**53,679**
Bank loans and overdrafts	**427**	**427**	**1,280**	**2,276**	**4,410**	**3,883**
	54,106	**427**	**1,280**	**2,276**	**58,089**	**57,562**

	2009					
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	After 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Trade and other payables	116,695	–	–	–	116,695	116,695
Bank loans and overdrafts	2,325	427	1,280	2,703	6,735	6,114
Obligations under finance leases	449	75	–	–	524	462
	119,469	502	1,280	2,703	123,954	123,271

33. Financial risk management and fair values (Continued)

b) Liquidity risk (Continued)

The Company

	2010				
	Within 1 year or on demand HK$'000	**More than 1 year but less than 2 years HK$'000**	**More than 2 years but less than 5 years HK$'000**	**Total contractual undiscounted cash flow HK$'000**	**Carrying amount HK$'000**
Trade and other payables	**870**	**–**	**–**	**870**	**870**

	2009				
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Trade and other payables	816	–	–	816	816

As at 31 March 2010, it was not probable that the counter parties to the financial guarantees will claim under the contracts. Consequently, the carrying amount of the financial guarantee contracts of HK$55,000 (2009: HK$1,260,000) has not been presented above.

c) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. Since Hong Kong dollars is pegged to United States dollars, there is no significant exposure expected on United States dollars transactions. The currencies giving rise to this risk are primarily Euro and Sterling.

The Group ensures that the exposure on recognised assets and liabilities arising from sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate is kept to an acceptable level, by buying or selling foreign currency at spot rate where necessary to address short-term imbalances.

33. Financial risk management and fair values (Continued)

c) Currency risk (Continued)

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they related.

The Group

	2010			2009		
	USD'000	**EUR'000**	**GBP'000**	USD'000	EUR'000	GBP'000
Trade and other receivables	**649**	**288**	**16**	2,154	1,144	8
Cash and cash equivalents	**2,415**	**658**	**42**	1,092	105	6
Trade and other payable	**(2,333)**	**(893)**	**(310)**	(6,058)	(852)	(382)
Bank loans and overdrafts	**—**	**—**	**—**	(79)	—	—
Overall net exposure	**731**	**53**	**(252)**	(2,891)	397	(368)

The Company

	2010			2009		
	USD'000	**EUR'000**	**GBP'000**	USD'000	EUR'000	GBP'000
Cash and cash equivalents	**43**	**—**	**—**	65	—	—
Overall net exposure	**43**	**—**	**—**	65	—	—

An analysis of the estimated change in the Group's profit/(loss) after tax (and retained profits) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period is presented in the following table.

The Group

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and retained profits HK$'000
Euro	**10%**	**46**	10%	339
	(10%)	**(46)**	(10%)	(339)
GBP	**10%**	**(246)**	10%	(339)
	(10%)	**246**	(10%)	339

33. Financial risk management and fair values (Continued)

c) Currency risk (Continued)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date while all other variables remains constant. The stated changes also represent management's assessment of a reasonably possible change in foreign exchange rates until the next annual end of the reporting period. The analysis is performed on the same basis for 2009.

d) Interest rate risk

The Group's interest rate risk arises primarily from the Group's bank deposits and interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out below.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the end of the reporting period and the periods in which they reprice or the maturity dates, if earlier.

The Group

	2010					
	Effective interest rate	Total HK$'000	1 year or less HK$'000	1–2 years HK$'000	2–5 years HK$'000	More than 5 years HK$'000
Repricing dates for assets/ (liabilities) which reprice before maturity						
Cash and bank balances	0.0001%–0.36%	102,079	102,079	–	–	–
Pledged bank deposits	0.36%	381	381	–	–	–
Bank loans	2.5%	(3,883)	(333)	(342)	(1,078)	(2,130)
		98,577	102,127	(342)	(1,078)	(2,130)

33. Financial risk management and fair values (Continued)

d) Interest rate risk (Continued)

Effective interest rates and repricing analysis (Continued)

The Group (Continued)

	2009					
	Effective interest rate	Total HK$'000	1 year or less HK$'000	1–2 years HK$'000	2–5 years HK$'000	More than 5 years HK$'000
Repricing dates for assets/ (liabilities) which reprice before maturity						
Cash and bank balances	0.0001%–0.05%	119,230	119,230	–	–	–
Pledged bank deposits	0.36%	1,493	1,493	–	–	–
Bank overdrafts	5%–6.25%	(161)	(161)	–	–	–
Bank loans	2.284%–6.25%	(5,953)	(2,070)	(333)	(1,052)	(2,498)
		114,609	118,492	(333)	(1,052)	(2,498)
Maturity dates for assets/ (liabilities) which do not reprice before maturity						
Pledged bank deposits	0.78%–3.6%	10,224	10,224	–	–	–
Obligations under finance leases	4.5%	(462)	(396)	(66)	–	–
		9,762	9,828	(66)	–	–

The Company

	2010			2009		
	Effective interest rate	Total HK$'000	1 year or less HK$'000	Effective interest rate	Total HK$'000	1 year or less HK$'000
Repricing dates for assets/ (liabilities) which reprice before maturity						
Cash and bank balances	0.0001%–0.01%	2,672	2,672	0.08%	91,302	91,302

As at 31 March 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit/(loss) before tax by approximately HK$986,000 (2009: approximately HK$1,244,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for the non-derivative financial liabilities in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual end of the reporting period. The analysis is performed on the same basis for 2009.

33. Financial risk management and fair values (Continued)

e) Equity price risk

The Group is exposed to equity price risk arising from trading of listed securities classified as trading securities in the consolidated statement of financial position. The sensitivity analysis has been determined based on the exposure to equity price risk.

At the end of the reporting period, if the quoted market prices of the trading securities had been 20% higher or lower while all other variables were held constant, the Group's net profit would increase or decrease by approximately HK$6,441,000 (2009: the Group's net loss would decrease or increase by approximately HK$5,277,000) as a result of changes in fair value of investments. The Group's sensitivity to equity price has changed significantly from the prior year.

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to the exposure to equity price in existence at that date. It also assumed that the fair values of the Group's investment would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's securities investments would be considered impaired as a result of a reasonably possible decrease in the relevant stock market index or other relevant risk variable, and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the next annual end of the reporting period. The analysis is performed on the same basis for 2009.

f) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at the end of the reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

33. Financial risk management and fair values (Continued)

f) Fair value measurements recognised in the statement of financial position (Continued)

	2010							
	The Group				The Company			
	Level 1 HK'$000	Level 2 HK'$000	Level 3 HK'$000	Total HK'$000	Level 1 HK'$000	Level 2 HK'$000	Level 3 HK'$000	Total HK'$000
Financial assets at fair value through profit or loss								
Trading securities	32,203	–	–	32,203	–	–	–	–
Financial liabilities at fair value through profit or loss								
Financial guarantee liabilities	–	–	–	–	–	–	(55)	(55)

	2009							
	The Group				The Company			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets at fair value through profit or loss								
Trading securities	26,385	–	–	26,385	–	–	–	–
Financial liabilities at fair value through profit or loss								
Financial guarantee liabilities	–	–	–	–	–	–	(1,260)	(1,260)

There were no significant transfers between instruments in Level 1 and Level 2 during the year.

33. Financial risk management and fair values (Continued)

f) Fair value measurements recognised in the statement of financial position (Continued)

Reconciliation of level 3 fair value measurements of financial liabilities

	The Company
	HK$'000
Financial guarantee contracts	
At 1 April 2009	1,260
Fair value of financial guarantee contracts issued	673
Amortisation for the year	(1,878)
At 31 March 2010	55

The fair values of cash and cash equivalents, pledged bank deposits, trade and other receivables, trade and other payables are not materially different from the carrying amounts because of the immediate or short term maturity of these financial instruments. The carrying amounts of other financial assets, bank loans and overdrafts and finance lease liabilities approximate their fair values.

g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments set out in note 33 (d) and (e) above.

i) *Trading securities*

Fair value is based on quoted market prices at the end of the reporting period without any deduction for transaction costs.

ii) *Interest-bearing loans and borrowings and finance lease liabilities*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

34. Material related party transactions

The Group has entered into the following material related party transactions:

a) Key management personnel remuneration

Remuneration for key management personnel including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2010 HK$'000	2009 HK$'000
Short-term employee benefits	5,057	6,510
Retirement scheme contributions	9	24
	5,066	6,534

Total remuneration is included in "staff costs" (see note 6(b)).

b) On 28 August 2008, the Company entered into a subscription agreement with 4 directors, Mr. Li Song Xiao (resigned on 13 January 2010), Mr. Yuan Kun (resigned on 13 January 2010), Mr. Lu Zhao Qun (resigned on 21 April 2009) and Mr. Xu Xiao Yang for subscription of 265,000,000 new shares. Pursuant to the agreement, 240,000,000, 10,000,000, 10,000,000 and 5,000,000 shares were issued and allotted respectively to Mr. Li Song Xia, Mr. Yuan Kun, Mr. Lu Zhao Qun and Mr. Xu Xiao Yang at HK$0.3 per share. The shares were allotted to the directors on 5 November 2008 to 7 November 2008.

c) Other related party transactions

	Note	2010 HK$'000	2009 HK$'000
Sales to a related party	(i)	–	78
Purchase from a related company	(ii)	1,885	—
Staff costs	(iii)	–	26
Acquisition of equity interest from a minority shareholder	(iv)	–	900

Notes:

i) The Group sold vehicle spare parts and equipment to/from Langfang Yardway Machinery and Equipment Limited which was controlled by Fong Kit Wah, Alan, an ex-director of the Company.

ii) The Group purchased vehicle spare parts from a related company namely Beijing Yardway Feiyi Machinery and Equipment Limited. The related company and one of the Group's subsidiaries share a common senior management who are able to exercise significant influence over the related company and the subsidiary in making financial and operating policy decision.

iii) The amount represents staff costs paid to an individual minority shareholder of a non-wholly-owned subsidiary.

iv) On 22 April 2008, the Group acquired the remaining 25% equity interest in Yardway Enterprises from Lin Yu Chung, a minority shareholder and director of the subsidiary, for a consideration of HK$900,000. Yardway Enterprise Limited became a wholly owned subsidiary of the Group upon completion of the acquisition.

35. Commitments

At 31 March 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 year	**3,046**	1,502	**1,244**	—
After 1 year but within 5 years	**—**	265	**933**	—
	3,046	1,767	**2,177**	—

The Group is a lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

36. Contingent liabilities

At the end of the reporting period, the Company gave corporate guarantees for banking facilities of HK$21,958,000 (2009: HK$105,320,000) granted to certain subsidiaries. The maximum liability of the Company at the end of the reporting period under the guarantees issued was the facilities utilized by the subsidiaries totalling HK$10,493,000 (2009: HK$31,903,000). The directors do not consider it probable that a claim will be made against the Company.

37. Ultimate controlling party

As at 31 March 2010, the directors of the Company consider the ultimate controlling party of the Group to be Gentle International Holdings Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

38. Comparative figures

With a review of financial statements presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transactions. Accordingly, comparative figures have been reclassified to conform with the current year's presentation.

39. Subsequent events

On 9 April 2010, the Company entered into an agreement to purchase 100% equity interest in Fanhe (Beijing) Water Investment Co., Ltd ("Fanhe Water") at a total consideration of HK$55,000,000. Fanhe Water is an investment holding company and its subsidiary, Fanhe (Hulu Island) Water Investment Co., Ltd ("Fanhe Hulu"), is engaged in sewage treatment business in mainland China pursuant to a Build-Operate-Transfer contract ("BOT contract") dated 23 April 2010. According to the BOT contract, Fanhe Hulu was granted the concessionary operating rights for a period of 30 years in respect of a waste water processing project ("Waste Water Processing Project") in Hulu Island City. In addition, Fanhe Hulu has to make commitment in the BOT Project which involves in expansion and upgrade the effluent standard of the Waste Water Processing Project. In return for constructing, operating and maintaining the BOT Project and providing sewage treatment services, Fanhe Hulu will receive sewage treatment fees from the Finance Bureau of Hulu Island City. The acquisition was completed on 27 April 2010.

At the expiration of the concession period, Fanhe Hulu will hand over all the assets belonging to the Waste Water Processing Project to Hulu Island City Sewage Processing Co., Ltd, the grantor of the BOT Project.

The Group is of the view that the population in mainland China is expected to grow, current water shortages may be exacerbated. To address water shortages and natural water resource pollution attributable to rapid growth in population, urbanization and industrialization in mainland China, the PRC government has been promulgating stricter environmental standards and invested significantly in water treatment projects to promote sustainable economic growth. The Group believes that the demand for water treatment infrastructure is expected to experience rapid growth.

The following summaries the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	HK$'000
Cash	40,000
Consideration shares to be issued*	15,000
	55,000

* The balance of HK$15 million consideration shares to be allotted and issued upon an agreement for banking facility and/or project finance loan in connection with the construction and improvement plan as contemplated by the BOT Contracts in the aggregate principal amount of no less than RMB115.5 million and aggregate principal amount of no less than RMB6 million having been drawn pursuant to the terms of the said loan agreement. An aggregate of 37,500,000 consideration shares are to be allotted and issued upon the above-mentioned conditions fulfilled.

39. Subsequent events (Continued)

Identifiable assets and liabilities assumed

	Acquiree's carrying amount before combination HK$'000	**Fair value adjustment** HK$'000	**Provisional fair value** HK$'000
Plant and equipment	191	—	191
Goodwill	685	—	685
Other receivables	570	—	570
Cash and cash equivalents	4,421	—	4,421
Amount due to immediate holding company	(2,280)	—	(2,280)
Other payables and accruals	(2,960)	—	(2,960)
Total net assets identified	627	—	627
Provisional goodwill			54,373
Total consideration			55,000

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries:

	HK$'000
Cash consideration paid	(40,000)
Cash and cash equivalents in subsidiaries acquired	4,421
Cash outflow on acquisition of the subsidiaries	(35,579)

As at the date of this report, the Group has not finalized the fair value assessment for the acquiree's identifiable assets, liabilities and contingent liabilities as at the date of acquisition. The relevant fair value of net assets acquired stated above is on a provisional basis and may be subject to significant changes in future period when these valuations have been finalized.

The provisional goodwill is attributable to the acquired management expertise, the profitability and the synergies expected to arise from the acquired businesses. None of the provisional goodwill recognized is expected to be deductible for income tax purposes.

The Group incurred acquisition-related costs of HK$2,189,000 relating to legal and professional fees and other charges which have been excluded from the cost of acquisition.

Had the acquisition been completed on 1 April 2009, the Group's total revenue would have been approximately HK$147,311,000 and profit would have been approximately HK$3,372,000.

The above pro forma information on the Group's revenue and result is for illustrative purposes only and is not necessarily indication of revenue and results of operations of the Fanhe Group that actually would have been achieved had the acquisition been completed on 1 April 2009, nor is it intended to be a projection of future results.

40. Accounting estimates and judgements

(a) Key sources of estimation uncertainty

Notes 15(a), 16(a) and 33 contain information about the assumptions and their risk factors relating to valuation of leasehold land and buildings, investment properties and financial instruments respectively. Other key sources of estimation uncertainty are as follows:

(i) Write-down for obsolescence of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience on selling goods of similar nature. It could change significantly as a result of changes in market conditions.

(ii) Depreciation, amortisation and impairment loss of property, plant and equipment

Property, plant and equipment are depreciated and amortised on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recovered during the year. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

Internal and external sources of information are reviewed at each end of the reporting period to identify indications that assets may be impaired. The Group will review the estimated future cash flows of the assets regularly in order to determine whether impairment loss is required. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

(iii) Impairment loss on trade receivables

The Group evaluates whether there is any objective evidence that trade receivables are impaired, and determine the amount of impairment loss as a result of the inability of the debtors to make required payments. The Group bases the estimates on the ageing of the trade receivables balance, credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(iv) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

40. Accounting estimates and judgements (Continued)

(a) Key sources of estimation uncertainty (Continued)

(v) Fair value of investment properties and leasehold land and buildings

Investment properties and leasehold land and buildings are carried in the statement of financial position at 31 March 2010 at their fair value. The fair value was based on a valuation on these properties conducted by an independent firm of professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and leasehold land and buildings and corresponding adjustments to the amount of gain or loss reported in the consolidated income statement and revaluation reserve.

(vi) Warranty provision

As explained in note 28, the Group makes provision for the warranty it gives on sale of its railway and metro maintenance equipments and vehicles based on the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(b) Critical accounting judgements in applying the Group's accounting policies

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

Impairment of goodwill

Goodwill is stated at cost less impairment. Judgement is required when determining whether an impairment existed. In making this judgement, historical data and factors such as industry and sector performance and financial information regarding the cash-generating units are taken into account.

41. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2010

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2010 and which have not been adopted in these financial statements.

The Group has not early applied any of the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) — Int 17	Distribution of Non-cash Assets to Owners[1]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 January 2011.
6 Effective for annual periods beginning on or after 1 July 2010.
7 Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. In addition, under HKFRS 9, changes in fair value of equity investments are generally recognized in other comprehensive income, with only dividend income recognized in profit or loss. The application of HKFRS 9 might affect the classification and measurement of the Company's financial assets.

41. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2010 (Continued)

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Company's leasehold land at revalued amount.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the financial statements.

Summary of Properties

For the year ended 31 March 2010

The following is a list of the group's properties at 31 March 2010:

Investment properties in the PRC

	Location	Lease term	Purpose	Gross area (sq.m.)
(1)	Rooms 1227 and 1228 on Level 12 of Block 1, Junefield Plaza Xuanwumenwaidajie East Xuanwu District Beijing The PRC	Medium	Commercial	190.97
(2)	Room 6B on level 6 and Car Parking Spacing No. 138 on Basement Level Beijing Regent Court No. Yi 8 Jiangguomenwaidajie Chaoyang District Beijing The PRC	Long	Residential	150.57

Investment properties in Hong Kong

	Location	Lease term	Purpose	Gross area (sq.ft.)
(1)	House F25 of Stage IV Marina Cove 380 Hiram's Highway Hebe Haven Sai Kung New Territories Hong Kong	Medium	Residential	2,064

Summary of Properties

For the year ended 31 March 2010

Leasehold properties in the PRC

	Location	Lease term	Purpose	Gross area (sq.m.)
(1)	Room 5E on level 5 and Car Parking Spacing No. 137 on Basement Level Beijing Regent Court No. Yi 8 Jiangguomenwaidajie Chaoyang District Beijing The PRC	Long	Residential	150.57
(2)	Flat A on Level 2 of Block D President Mansion No. 868 Hua Shan Road Shanghai The PRC	Long	Residential	151.27
(3)	Two parcels of land (Nos. 1–40 and 1–41) located at Phase 2 of Science and Technology Innovation Coast Zhuhai City Guangdong Province The PRC	Medium	Industrial	10,824.45
(4)	Two buildings located at Phase 2 of Science and Technology Innovation Coast Zhuhai City Guangdong Province The PRC	Medium	Industrial	9,133.93

Five Year Financial Summary

	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
RESULTS					
Turnover	**147,311**	189,357	298,865	214,424	189,646
(Loss)/profit from operations	**7,240**	(13,636)	11,378	(953)	11,775
Finance costs	**(262)**	(1,019)	(2,347)	(1,749)	(1,693)
(Loss)/profit before taxation	**6,978**	(14,655)	9,031	(2,702)	10,082
Taxation	**(3,238)**	(172)	(2,241)	99	(1,501)
(Loss)/profit for the year	**3,740**	(14,827)	6,790	(2,603)	8,581
Attributable to:					
— Equity shareholders of the company	**3,740**	(14,810)	7,104	(2,735)	8,496
— Minority interests	**—**	(17)	(314)	132	85
(Loss)/profit for the year	**3,740**	(14,827)	6,790	(2,603)	8,581
ASSETS AND LIABILITIES					
Fixed assets	**61,243**	54,598	55,498	62,391	49,133
Other non-current assets	**—**	242	237	237	—
Net current assets	**141,239**	139,468	72,592	51,670	67,405
Non-current liabilities	**(7,378)**	(6,399)	(6,639)	(7,707)	(8,141)
	195,104	187,909	121,688	106,591	108,397
Share capital	**55,825**	55,825	28,825	28,085	28,000
Reserves	**139,279**	132,084	92,278	77,607	79,630
Total equity attributable to equity shareholders of the company	**195,104**	187,909	121,103	105,692	107,630
Minority interests	**—**	—	585	899	767
Total equity	**195,104**	187,909	121,688	106,591	108,397
(Loss)/earnings per share					
Basic	**0.17 cents**	(0.94) cents	1.25 cents	(1.0) cent	3.0 cents
Diluted	**0.17 cents**	(0.94) cents	1.23 cents	N/A	N/A